2021 Fiscal Plan for Puerto Rico

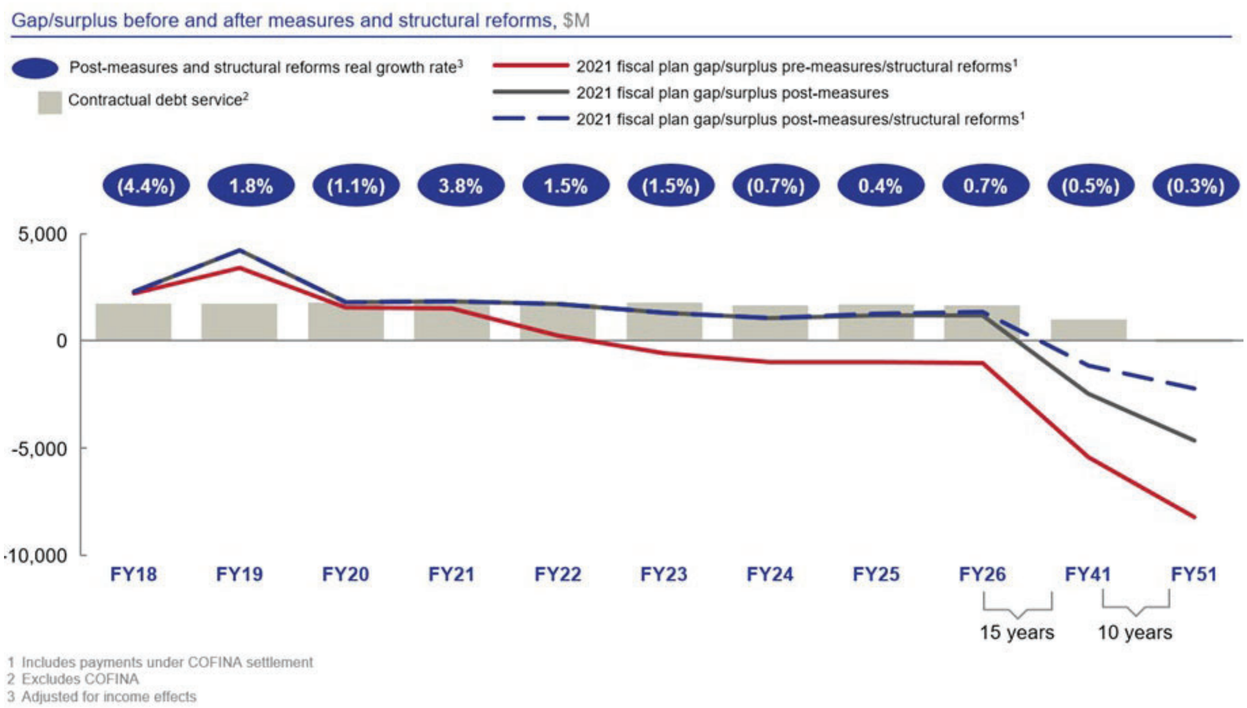
Restoring Growth and Prosperity

As certified by the Financial Oversight and Management Board for Puerto Rico

April 23, 2021

Exhibit A

EXHIBIT 4: 2021 FISCAL PLAN PROJECTED TOTAL SURPLUS BEFORE AND AFTER MEASURES AND STRUCTURAL REFORMS (EXCLUDING DEBT SERVICE)

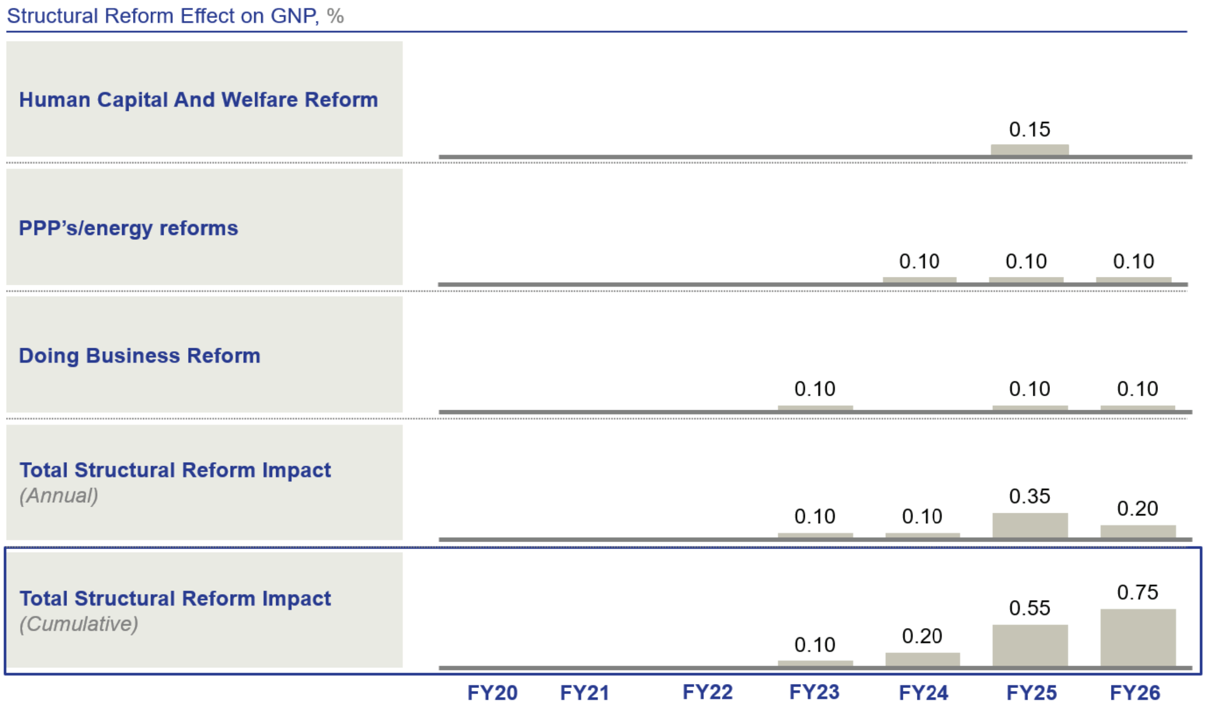


* * *

Though much progress has been made, diligent and focused efforts are needed in the coming years to accelerate momentum and reach a more sustainable path. While natural disasters and the pandemic have been incredibly damaging and disruptive to lives and livelihoods of the residents on the Island, they have been accompanied with over $100 billion in federal relief funding for disaster relief and recovery, and to respond to the COVID-19 pandemic.

In conclusion, this unprecedented level of federal support—which represents over 100% of Puerto Rico's Gross National Product—provides a once in a generation opportunity to build resilient infrastructure, invest in economic growth, improve government services, and rebound from the effect of the pandemic on residents, businesses, and the not-for-profit sector. The investments can also unlock creativity, entrepreneurship, and private sector investment when coupled with the much needed reforms to the business climate outlined in the Fiscal Plan. Finally, the near term support enables a window of opportunity to build a more effective government to serve the people. Taken together, these actions – if fully implemented – can help to stem the demographic outflow, improve quality of life, and return Puerto Rico to growth.

EXHIBIT 16: MACROECONOMIC IMPACT OF STRUCTURAL REFORMS



By FY2051, K-12 Education reforms add 0.15% cumulative impact, resulting in 0.90% annual impact on GNP

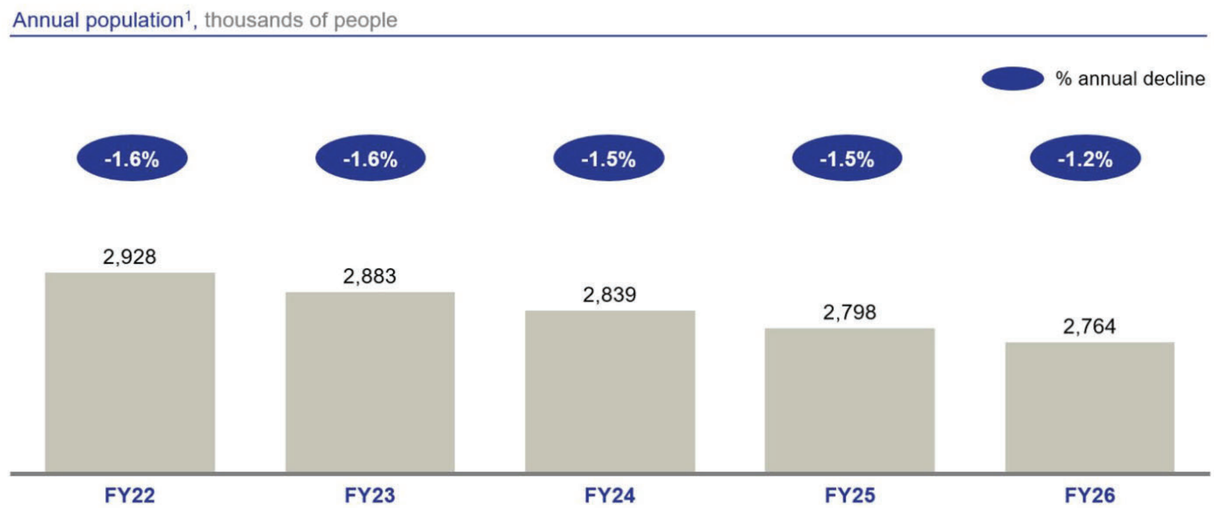
4.5 Population projections

Even before Hurricanes Maria and Irma hit the Island in 2017, Puerto Rico's population had been trending downward by 1-2% every year as residents have left to seek opportunities elsewhere and birth rates declined. In 2016, the U.S. Census Bureau's official forecast, projected a worsening population outlook due in large part to Puerto Rico's rapidly-aging population. This high average age range results from extremely low age-adjusted birth rates and outmigration of younger people. Indeed, in 2016, Puerto Rico began to experience negative natural population change (a higher number of deaths than births). This negative natural change has continued unabated into 2021.

Hurricanes Irma and Maria served to compound the problem, spurring an additional outflow of people just as natural population decline has set in, as many residents lost houses, jobs, and loved ones. While some of these people have returned, the population is still projected to decline over the course of the 2021 Fiscal Plan period and beyond. Further disasters, such as the series of earthquakes experienced in 2020, have not made a swift return to balanced migration any more likely. But while net migration is a larger driver of population change in the short term, this factor is volatile; in the long run, net migration is projected to return to more balanced trends. Meanwhile, natural population change is not guaranteed to rebalance at any point, and births are likely to continue declining, while deaths are projected to slowly rise in the mid-term. COVID-19 has suppressed air traffic between Puerto Rico and the mainland, and thus impacted migration, but this effect is expected to be transitory.

As outlined in *Exhibit 17* below, this 2021 Fiscal Plan projects that by FY2026, there will be almost 10% fewer people living on the Island than in FY2019, and that by FY2051, the drop will grow to 33%.

EXHIBIT 17: PROJECTED POPULATION CHANGE



1 For reference, the population was 3.09M, 3.08M, and 3.03M in FY18, FY19, and FY20, respectively

Chapter 5. Fiscal Plan financial projections (FY2022-FY2026)

In the past several years, Puerto Rico has endured a tumultuous economic climate due to natural disasters and the COVID-19 pandemic. This has had a direct impact on economic growth and, ultimately, on Government revenues. The impact to Puerto Rico has been a real GNP decline in FY2020 followed by a rebound in FY2021 and FY2022 as the full impact of the federal economic support takes hold.

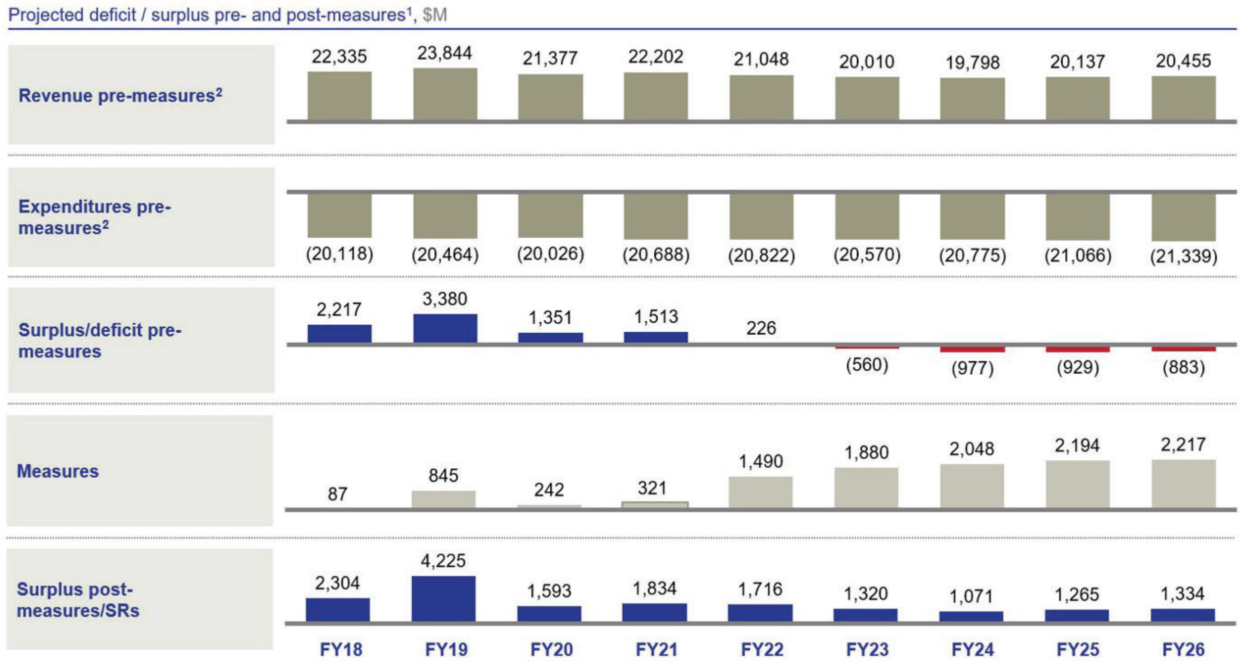
Before measures (i.e., in the "baseline forecast"), there is a pre-contractual debt service deficit starting in FY2023 in the 2021 Fiscal Plan.[27] This deficit gets worse over time, as federal disaster relief funding slows down, Supplemental Medicaid funding phases out, Act 154 and Non-Resident Withholding revenues decline, and healthcare expenditures rise.

The fiscal measures and structural reforms contained in the 2021 Fiscal Plan are the main drivers of a significant portion of the surplus in the 2021 Fiscal Plan. Fiscal measures will drive ~$10.0 billion in savings and extra revenue over FY2022-FY2026 and structural reforms will drive a cumulative 0.90% increase in growth by FY2051 (equal to ~$30.7 billion). However, even after fiscal measures and structural reforms, and before contractual debt service, there is an annual deficit reflected in the projections starting in FY2036. This is, in large part, due to insufficient implementation of structural reforms proposed in previous fiscal plans, including continued highly regulated and restrictive private sector labor market policies that prevent higher growth, a delay in rolling out the NAP work requirement to increase labor force participation rates, and a lack of progress implementing more meaningful ease of doing business reforms to improve the economy's competitiveness and attract greater levels of investment and job creation. *Exhibit 18* illustrates the projected deficit / surplus through FY2026.

Projections for FY2027 onwards are included in *Chapter 6*.

27 The baseline forecast also reflects the pledge of a portion of annual SUT revenues to COFINA creditors as per the terms of the COFINA Title III Plan of Adjustment

EXHIBIT 18: PROJECTED DEFICIT / SURPLUS PRE- AND POST-MEASURES



1 Values presented assume full and timely implementation of structural reforms and reflect GNP uplift due to these reforms
2 Revenues and expenditures excluding gross up adjustments; revenues do not include Earned Income Tax Credit

5.1 Baseline revenue forecast

Major revenue streams (*Exhibit 19*) include non-export sector General Fund revenues (including individual, corporate, and sales and use taxes) and export sector revenues (including Act 154 excise taxes paid by multinationals operating on the Island, and Non-Resident Withholdings), as well as federal funding. The 2021 Fiscal Plan also includes certain Commonwealth revenues that prior to PROMESA the Commonwealth appropriated to certain instrumentalities pursuant to statutes enacted by prior legislatures; the inclusion of these revenues in the 2021 Fiscal Plan is based on the Oversight Board's legal conclusions that (i) such monies are property of the Commonwealth, (ii) each pre-PROMESA statute appropriating or transferring such monies to instrumentalities of the Commonwealth is preempted by PROMESA, (iii) such statutes were enacted by prior legislatures that cannot bind the current legislature, and (iv) in any event, absent PROMESA under the Puerto Rico Constitution, such monies would not be transferred to the instrumentalities while General Obligation debt is not being paid according to its terms.

There is expected to be significant near-term uncertainty in the level of revenue collections, as the post-COVID recovery is constantly evolving. Since the 2020 Fiscal plan, there have been multiple rounds of additional federal economic support, which has contributed to faster than expected economic recovery at the national and local level. As a result, tax collections have been generally higher than forecasted in the 2020 Fiscal Plan. Relative to the 2020 Fiscal Plan, General Fund revenues are expected to be ~14% higher in FY2021 and ~9% higher in FY2022.

EXHIBIT 19: MAJOR REVENUE STREAMS POST MEASURES

Key general fund revenue drivers, post-measures, $M

	FY22	FY23	FY24	FY25	FY26
Personal income tax[1]	2,105	2,115	2,116	2,173	2,219
Corporate income tax	2,054	2,017	1,997	2,069	2,110
Sales and use tax[2]	2,239	2,219	2,214	2,253	2,292
Act 154	1,631	1,447	1,199	1,199	1,199
Non-resident withholdings	349	349	350	354	358
Other general fund revenues[3]	1,829	1,730	1,677	1,699	1,726
FAM portion of SUT	130	130	130	133	136
Incremental excise taxes on off-shore rum	175	141	143	144	146
Petroleum, gasoline, diesel taxes	562	637	636	637	638
Vehicle license fees	134	132	131	132	133
CRIM property tax inflows	140	146	148	150	153
Miscellaneous other	233	215	215	217	219
Total	11,582	11,278	10,957	11,160	11,330

1 Includes expense related to EITC
2 Sales and use tax (SUT) reflects collections after payout of the COFINA settlement
3 'Other' general fund revenues include cigarette, rum, motor vehicles, alcoholic beverages, and other GF taxes; exclude adjustments for revenue gross up

Additional details on the 2021 fiscal plan revenue streams are provided below, with details on the financial projections included in the Appendix. The following sections describe the approach to estimating revenues for key revenue streams.

5.1.1 Non-export sector General Fund revenue projections

Individual income taxes: Individual income taxes are highly concentrated, with 78.2% of revenues coming from the 8.7% of tax returns reporting income above $60,000 in FY2018.[28] The 2021 Fiscal Plan incorporates the expected incremental individual income tax collections associated with disaster relief spending, as well as the performance of individual income tax collections that have been more resilient in FY2021 than forecast in the 2020 Fiscal Plan. The 2021 Fiscal Plan projects that disaster relief spending will continue to contribute to the income tax base, either through mainland workers temporarily working in Puerto Rico or from Puerto Rican residents entering the formal economy as a result of disaster relief projects.

Corporate income taxes: There is also concentration in tax receipts among the largest corporations operating in Puerto Rico (e.g., ~29% of corporate income taxes are paid by 20 corporate taxpayers).[29] Historical aggregated data from Hacienda show that in the aftermath of the 2017 hurricanes, there was an influx of corporate activity spurred by reconstruction funding and mainland-based firms entering the Island's economy. This had led to higher corporate income taxes relative to GNP in FY2018 and FY2019, and this trend was continuing in FY2020 prior to the onset of COVID-19. The 2021 Fiscal Plan incorporates the contribution of disaster relief spending to the corporate tax base into future years. Further, the 2021 Fiscal Plan reflects certain adjustments to corporate income tax revenues attributable to one-time M&A activity, which

28 Hacienda historical reports as of April 2018
29 Ibid.

resulted in a non-recurring $488 million of revenues in FY2020 and ~$39 million in reduced corporate income taxes starting in FY2021, as projected by Hacienda.

Sales and use taxes (SUT): As with corporate and personal income taxes, SUT outperformed relative to GNP in FY2018 and FY2019, likely boosted by the increased economic activity resulting from the post-disaster reconstruction process (including through the replacement of lost inventory) and higher SUT compliance by larger firms less impacted by natural disasters. The 2021 Fiscal Plan incorporates incremental tax collections as disaster relief continues in future years. A portion of SUT collections will also be used to fund COFINA's obligations under its Plan of Adjustment going forward. This portion reaches ~$1 billion annually starting in FY2041.

Partnership income taxes: Act 60-2019 extended an alternative tax election for taxpayers to pay income taxes at the Partnership level at preferential tax rates. This change in tax administration resulted in a new category of revenue collections of ~$205 million[30] for FY2021 (as of February 2021). These payments largely reflect payments that otherwise would have been made by the partners in these entities and therefore would have been reported as personal or corporate income tax. A portion of the incremental collections have been considered non-recurring given the concentration of the payments in a small number of taxpayers and sectors. The 2021 Fiscal Plan forecasts ~$100 million of the increase in collections to be recurring.

Other General Fund revenue (including Motor Vehicles, Alcoholic Beverages, and Cigarettes): Motor vehicle revenue tax receipts surged in FY2018 and this trend continued into FY2021, as residents continued to accelerate motor vehicles purchases in the aftermath of the 2017 hurricanes and during the COVID-19 pandemic as federal stimulus payments reached the Island. The 2021 Fiscal Plan forecasts that elevated purchasing of motor vehicles will continue into FY2022, but purchases then return to historical trends over the following years. In addition, since FY2019 there has been a persistent increase in "other excise tax" collections, as these taxes were migrated to the new Internal Revenue Unified System (SURI by its Spanish acronym) platform. Hacienda has reported that it is challenging within the new platform to properly classify a component of these revenues according to their appropriate excise tax classification (e.g., motor vehicles, alcoholic beverages). Accordingly, the agency has created a suspense account to recognize these collections until the corresponding return is received and reconciled. The Oversight Board has requested corrective action be taken to accurately and in a timely manner recognize revenues in their appropriate revenue accounts to reduce the accumulation of unclassified excise taxes, and better isolate how much of the elevated collections come from re-classified taxes versus improved compliance. The 2021 Fiscal Plan includes an updated forecast of other General Fund tax revenues to reflect the expected continued elevated collections relative to prior year forecasts. The Oversight Board will continue to work with Hacienda to decompose this category of revenue and improve the granularity of future year forecasts.

Export sector revenue projections: Act 154 and Non-Resident Withholding (NRW) tax revenues are concentrated in a small number of multinational corporations. From FY2017 to FY2024, the 2021 Fiscal Plan estimates that Act 154 and NRW revenues will erode due to U.S. federal tax reform (reducing Puerto Rico's attractiveness as a low tax jurisdiction for multinationals), global supply chain diversification, and patent expirations. During FY2021, the Government submitted comments for the U.S. Treasury's consideration in response to the IRS notice of proposed rulemaking REG-101657-20 publication. In addition, the U.S. Treasury has publicly proposed reforms to the global corporate tax regime that could impact Puerto Rico, if enacted. The Oversight Board will closely monitor developments in the event they impact the 2021 Fiscal Plan.

[30] Does not include deferred taxes from FY2020 collected during FY2021

5.1.2 *Medicaid funding*

On a steady-state basis (i.e., in the absence of supplemental federal legislation), Medicaid costs are funded primarily by the Commonwealth, as there is a cap on available federal funding. Typical annual federal funding streams for the Commonwealth are the following, and are projected based on current law and statutory growth rates:

- **Standard annual federal Medicaid funding.** Although Puerto Rico has a 55% federal medical assistance percentage (FMAP), the amount of annual federal funding received under Section 1108 is capped each year. For FY2022, this funding stream is expected to be capped at ~$403 million, and though the cap grows each year according to the Medical Consumer Price Index for All Urban Consumers (CPI-U), it does not keep pace with healthcare expenditure growth.[31] Each year, ~$100 million of these funds are not available to cover premium expenses, but rather are transferred to the Department of Health to cover disbursements to Federally Qualified Health Centers ("Centros 330" or "FQHC") and Medicaid Program operations.

- **Increases in available Medicaid funding from federal legislation:** Since 2011, Puerto Rico has received temporary relief from rising healthcare costs through increased levels of federal reimbursement made available through the passage of the Affordable Care Act and the Bipartisan Budget Act of 2018. In December 2019, the Further Consolidated Appropriations Act was passed, which provides supplemental federal funding (up to $5.7 billion in total) to Puerto Rico's Medicaid program through September 30, 2021 (i.e., the first quarter of FY2022). In addition, the law raises the FMAP—the portion of Medicaid expenditures that federal funds can cover—from the standard level of 55% to 76% for most populations. Finally, in response to the COVID-19 pandemic, the Families First Coronavirus Response Act was passed in March 2020, further increasing both the available federal funds (adding an additional $183 million) and the FMAP (increased by an additional 6.2% for most populations). The available supplemental federal funds and higher FMAP will both return to standard levels in October 2021 (Q1 FY2022) in the absence of new federal legislation. Accordingly, the Commonwealth will hit a "Medicaid fiscal cliff," whereby it will be responsible for multi-billion-dollar annual healthcare expenditures that had previously been covered by federal funding since 2011. The 2021 Fiscal Plan does not assume future changes in federal legislation for this funding. The 2021 Fiscal Plan ensures that the Commonwealth is fiscally responsible under current law, and factors in the cost of Medicaid going forward in the absence of incremental legislation. To provide healthcare for a substantial part of the population, the Commonwealth must be able to pay and manage these critical costs, which grow faster than inflation, regardless of the future federal legislative environment. In the event that supplemental federal funds become available during any future fiscal year, and depending on the conditions imposed on the federal funds granted, the projected General Fund appropriation for the Puerto Rico Health Insurance Administration (ASES, by its Spanish acronym) would be revised downward.

- **Children's Health Insurance Program (CHIP) funding.** CHIP funding is not subject to a federal funding cap. Without additional legislation, the CHIP matching rate, also known as the Enhanced FMAP or eFMAP, for Puerto Rico is statutorily set at a minimum of 68.5% under Title XXI of the Social Security Act. Post passage of the Affordable Care Act, starting in FFY16, the eFMAP for Puerto Rico was raised to 91.5% through September 30, 2019. Subsequently, the eFMAP increased to 99% through a combination of legislative activity including the HEALTHY KIDS Act and Families First Act. The former expired in September 2020, dropping the eFMAP to 87.5%. The latter will remain in effect through the end of the public health emergency, which is currently extended through the close of calendar year 2021.

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31 According to §1108(g) of the Social Security Act., from 2011 to 2016, the cap grows by the medical component of CPI-U as reported by BLS each year. From FY2011-FY2016, this growth averaged 2.9%. This inflation rate differs from the healthcare inflation index for Medicaid and Medicare used elsewhere in the 2021 Fiscal Plan (4.5% to 5.5% from FY2020-FY2022, decreasing to 4.75% in FY2049). Instead, the medical component of CPI-U includes other factors that lower the inflation rate by approximately 3-5 percentage-points, meaning the increase in the federal funding cap will not keep up with actual increases in expenditures

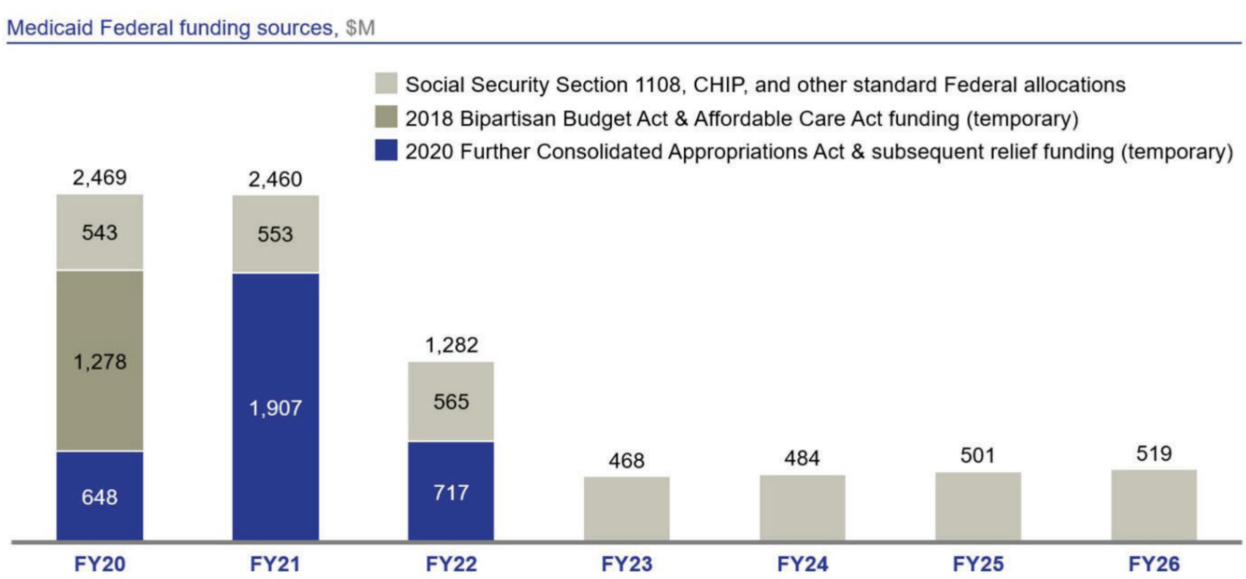
The Families First Act adds approximately 4.3% to the eFMAP. When the emergency health period is ended, the federal cost share is projected to decrease to the 68.5%.[32]

- **Special Revenue Fund revenues from municipalities:** Additional revenue for the Medicaid program comes from municipal intra-governmental transfers. See *Section 5.1.4* below for more information.

- **Special Revenue Funds revenues from prescription drug rebate:** Under the Centers for Medicare and Medicaid Services (CMS) Rule 84 FR 64783, U.S. Territories will be required to join the federal Medicaid Drug Rebate Program (MDRP) on April 1, 2022,[33] unless they apply for and receive a waiver. Currently, Puerto Rico operates its own drug rebate program whereby the Commonwealth negotiates or utilizes pre-negotiated agreements with drug manufacturers to return a portion of cost for prescription drugs (expected to be $264 million in FY2022). These funds enter the Commonwealth budget as Special Revenue Funds and are applied directly against the costs of Medicaid premiums. However, Puerto Rico has expressed its intention to join the MDRP program in the next fiscal year. Puerto Rico's potential entry into the MDRP is expected to yield higher rebate rates from drug manufacturers compared to those the Commonwealth currently has in place. Partly to enable entry into the federal program, the Government has also indicated its intention to update its accounting systems and the methodology by which it reports prescription drug utilization to the Centers for Medicare and Medicaid Services (CMS). In doing so, Puerto Rico will also begin sharing a portion of the rebate revenue with the Federal Government to the extent it reduces the costs eligible for federal matching. The Board is working with the Government to estimate the net financial impact and timing of the shift to the MDRP, including by seeking guidance from CMS on what revenues, if any, must be shared with the Federal Government.

Exhibit 20 outlines expected Medicaid federal fund receipts. After the first quarter of FY2022 (ending September 30, 2021), supplemental federal funding is projected to phase out, in accordance with currently enacted legislation. This "funding cliff" further exacerbates the imperative and urgent need to implement cost-saving measures to reduce long-term Medicaid costs. Medicaid expenditures are discussed in detail in *Chapter 16*.

EXHIBIT 20: BASELINE FEDERAL FUNDS RECEIPT PROJECTIONS



32 MACPAC: "Medicaid and CHIP in the Territories" (April 2020)

33 "Medicaid Program; Covered Outpatient Drug; Further Delay of Inclusion of Territories in Definitions of States and United States." Federal Register, 11 November 2019. Accessed 16 April 2021

5.1.3 Other federal funding

In addition to Medicaid funding, Puerto Rico receives other federal funds on a regular basis. These are not to be confused with disaster relief funds, which are directly tied to Hurricane Maria and earthquake reconstruction activity, or with COVID-19 response and relief funds, which are meant to cover incremental government spending to respond to the global pandemic. These funds cover both social benefits and operational expenditures. In the 2021 Fiscal Plan, these funds have been modeled based on what types of costs they cover (e.g., benefits or operations) as well as statutory formulas that define the size of Puerto Rico's allotment. For example, while Temporary Assistance for Needy Families (TANF) funds are typically pass-through (e.g., none of these funds go to operational costs), some Title I education funds are projected to be used for operational purposes (e.g., teachers' salaries, school supplies for programs for students with special needs, etc.). For the former, federal fund inflows and outflows mirror each other (as benefit needs decline, so do funds). For the latter, though inflows may decline, it does not necessarily mean expenditures decline as well – as expenditures are based on operations, not on benefits formulas, and the Commonwealth may have to cover operational expenditures via the General Fund should they outpace reduced federal funding. Meanwhile, while Head Start funds are allocated from the Federal Government based on the number of children living in poverty, NAP funds are provided through a block grant that is capped. The former, therefore, should change by population, while the latter should only grow with inflation, regardless of population changes.

5.1.4 Special Revenue Funds

Commonwealth agency Special Revenue Fund (SRF) revenues: The Commonwealth collects a significant portion of its revenues through Special Revenue Funds, which are funded from, among other sources, tax revenues transferred by statutes, fees and charges for services by agencies, and dividends from public corporations, and financing proceeds. Government tracking and reporting of these SRF revenues, associated expenses, and resulting surpluses or deficits has historically been incomplete and inconsistent. The baseline level of SRF revenues of Commonwealth agencies (excluding Independently Forecasted Component Units or IFCUs) has been updated in this 2021 Fiscal Plan by agency. The 2021 Fiscal Plan does not further detail SRF by type (special state funds, own revenues and other revenues), as Commonwealth agencies (excluding IFCUs) do not report this level of detail consistently. Future budget and Fiscal Plan processes will aim to further clarify Special Revenue Funds and apply controls to ensure transparency and accountability for these revenues. SRF revenues from fees and collections are also expected to be negatively affected by the COVID-19 pandemic, as agencies face decreased demand for services as a result of the lockdown. In order to achieve greater transparency and controls over SRF, the Government must identify all SRF sources at a granular level, and produce a revenues and expenditures report on a monthly basis, including a profit and loss statement for each Special Revenue Fund.

Independently Forecasted Component Unit (IFCU) revenues: The Commonwealth contains twelve Independently Forecasted Component Units, which range from public corporations (e.g., the State Insurance Fund Corporation) to public hospitals (e.g., the Cardio Center). These entities are mostly funded by Special Revenue Funds and may also receive General Fund appropriations. Through the annual budget process and tracking of actual receipts and expenditures, the Oversight Board has been able to gain more insight into the specific revenue streams for these entities to further refine the IFCU revenue projections. While most IFCU revenues are projected using GNP, given the unique nature of each IFCU, certain revenue streams are grown by other factors, such as inflation, population, or as governed by legislation.

Municipal contributions to PayGo and the Puerto Rico Health Insurance Administration (ASES by its Spanish Acronym): The 2021 Fiscal Plan includes receipts from municipalities to cover retirement and healthcare expenses incurred by the Commonwealth on their behalf. Since the passage of Act 72-1993, ASES has received funding from municipalities for the administration and delivery of the Government Health Plan on their behalf. Similarly,

since the passage of Act 106-2017, municipalities that participate in ERS are financially responsible for PayGo expenditures covered by the Commonwealth. The passage of Act 29-2019 disrupted this model and required the Government to fund municipalities' PayGo and Medicaid costs from the General Fund without receiving reimbursement from the municipalities. However, following legal proceedings initiated by the Oversight Board challenging the validity of Act 29-2019 under PROMESA, the Title III court ruled that Act 29-2019 violated PROMESA and nullified the law, thereby reinstating the municipalities' obligation to cover PayGo and healthcare payments for their employees. As a result of this ruling, the Commonwealth is entitled to seek reimbursement for prior payments made under Act 29-2019 and is empowered to act if these contributions are not received (e.g., to withhold payments for utilities, appropriations). The effective date of the court's ruling was delayed to May 7, 2020 to allow for the parties to discuss potential solutions to the financial challenges faced by municipalities, particularly in light of the COVID-19 pandemic. Accordingly, the 2021 Fiscal Plan assumes that municipalities fund their respective contributions for PayGo and healthcare expenditures going forward. In calculating municipalities' healthcare expenditures, however, the 2021 Fiscal Plan does take into account the incremental federal funding support in FY2021 and FY2022 made available through the 2020 Further Consolidated Appropriations Act. Given that this funding stream expires in FY2022, the 2021 Fiscal Plan assumes that contributions from municipalities thereafter will return to previous levels, but the Oversight Board will utilize the same approach in future years if additional federal funding is again provided.

Public Corporation PayGo receipts: The 2021 Fiscal Plan includes receipts from public corporations (e.g., PRASA) that participate in the Employee Retirement System (ERS) to cover PayGo expenditures covered by the Commonwealth. The Commonwealth shall be reimbursed for these payments and will act if these contributions are not received (e.g., will withhold payments for utilities).

FAM: The Municipal Administration Fund (FAM) collects 0.5% of the SUT which is distributed into three funds: (1) 0.2% to the Municipal Development Fund; (2) 0.2% to the Municipal Redemption Fund; and (3) 0.1% to the Municipal Improvement Fund (referred to as the FMM). Pursuant to Section 4050.09 of Act 1-2011, the FMM are to be distributed through annual legislation and appropriated for select capital works and improvement projects for the municipalities (e.g., public housing, schools). The legislature passes resolutions each year to allocate the FMM. These resolutions must be consistent with the 2021 Fiscal Plan and the applicable special revenue funds included in the Certified Budget.

5.1.5 Gross-up for tax credits

Gross-up of revenues to reflect potential revenues without payment of tax incentives: In addition to offering preferential tax rates, tax exemptions, tax abatements, and cash grants, the Government of Puerto Rico provides hundreds of millions of dollars in tax credits to corporations and individuals each year. Some of these tax credits function as entitlement programs: any business that meets the requirements set forth in law is entitled to the benefit. Other tax credits give government officials considerable discretion on which projects will receive incentives. Many of these tax credits are intended to pursue certain policy goals such as stimulating employment, stimulating economic activity and economic development, encouraging investment, and protecting local industries. Unlike traditional expenditures, however, tax credits are not incurred in a transparent fashion, and, with only a few exceptions, are currently uncapped by any aggregate amount of benefits conveyed. The issuance of tax credits also tends to be done in an ad hoc manner, with unclear economic justification for the costs incurred and without monitoring of the goals described above (i.e., how many jobs in any particular year were created). This leads to an unpredictable, and potentially costly, foregone revenue stream each year.

Uncapped and unpredictable issuance of tax credits can have a materially negative fiscal impact. Several states have faced challenges with unexpected levels of expense from tax

expenditures, such as Michigan (the Michigan Economic Growth Authority tax credits), Louisiana (tax credit for horizontal natural gas drilling), and New York ("brownfields" tax credits). The examples from these states are not uncommon and they reinforce the uncertainty and risk associated with the establishment of tax credits.

Policy makers in Puerto Rico must understand both the budget implications of current and proposed tax expenditures and should manage the size of tax incentives by setting limits on their annual cost and eliminating tax credits with negative returns. The issuance of reliable cost estimates, including a detailed analysis of the budget implications from each tax incentive and annual cost controls will help Puerto Rico avoid unexpected negative outcomes. Otherwise, the Government will remain powerless to manage the cost of these incentives and keep the incentives from growing uncontrollably.

Recognizing the importance of this question to the fiscal sustainability of Puerto Rico, the 2021 Fiscal Plan includes a forecast of gross revenues inclusive of the value of tax credits to show the foregone revenue associated with these credits. The 2021 Fiscal Plan includes a forecast of gross revenues based on the historical level of certain tax credits claimed on income tax filings for individual filers, regular corporation filers, and incentive tax filers, as provided by Hacienda. As shown in the period of the report *Exhibit 21*, over nine tax years (2010-2018), tax credits claimed across all tax filers averaged $261 million annually. The 2021 Fiscal Plan recommends all reporting going forward include monthly and quarterly reports as to the gross revenues, tax credits claimed, and the net revenues received for the period of the report.

EXHIBIT 21: TAX CREDITS BY YEAR

Projection, $M	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Regular Corporations	94	48	89	89	140	66	75	82	18
Incentive Corporations	135	147	133	158	116	78	70	56	66
Individuals	59	37	90	69	65	66	61	89	157
Total Tax Credits Claimed	**288**	**232**	**312**	**316**	**321**	**210**	**206**	**227**	**241**
9-Year Average									**261**

SOURCE: Hacienda

The Government must also adopt a transparent limit to the amount of tax credits issued and claimed at an amount below $261 million by, for example, capping the notional amount, restricting the number of companies and individuals that can claim credits annually, including sunset provisions, or inserting time bound clauses upon which each tax credit will expire. This is similar to the approach that other states have taken to limit the use or issuance of tax expenditures, including Arizona, California, Florida, Illinois, Massachusetts, Minnesota, New York, Ohio, and Pennsylvania. This limit is separate and incremental to the cash grants that corporations and individuals also receive, which will be captured in Certified Budgets going forward. Future Fiscal Plans should also be expanded to include limitations on foregone revenues due to preferential tax rates and exemptions, including municipal exemptions.

These forecasts should be maintained and updated by leveraging the work that Hacienda has undertaken to produce and maintain a more comprehensive measurement of tax expenditures over time through the annual Tax Expenditures Report. As discussed in more detail in *Section 17.3.1*, the publication of the initial Tax Expenditures Report in September 2019 provided, for the first time, better visibility into the full scope of tax expenditures being offered, together with a description and approximate cost of each expenditure.

For tax expenditures reporting to maintain relevance and maximize its impact on the policy making process, regular reviews of each tax incentive should be completed to assess whether each incentive is meeting its policy objective (and an assessment of benefits along with costs). This was missing from the inaugural report and detracts from the ability of the report to provide proper context from which to inform budgetary decision-making.

The estimates in the tax expenditures report should also be systematically incorporated into the annual fiscal plan and budget review process. This means they need to be considered in conjunction with consideration of direct spending proposals at the executive review and legislative levels and the agencies responsible for programs.

To achieve the objectives above, the tax expenditure report must be produced annually on a timely and efficient basis. In fact, the publication of the first tax expenditures report, in September 2019, stated the second annual report would be published in March 2020, yet it has not been published. Rationalizing the amount of tax expenditures offered by the Government is smart and prudent fiscal management. This can only be done in a comprehensive way through the production of the annual tax expenditure report on a timely basis.

The Government has also taken initial steps to provide transparency around, and control these expenditures through its proposed reforms to the Incentives Code. By targeting a limit on the amount of tax expenditures that can be spent each year, the Government would retain control over the cost and enable public debate about the value of this type of spending in light of the various needs on the Island.

5.1.6 Gross-up for COFIM receipts

The Municipal Finance Corporation (COFIM, by its Spanish acronym) is the public corporation that collects the 1% Municipal SUT established by law for certain municipalities. The 2021 Fiscal Plan includes projections of this 1% revenue stream, along with exactly offsetting expenses. COFIM is not an entity that receives appropriations from the General Fund, but rather relies solely on municipal SUT.

5.2 Baseline expenditure forecast

The trend of **"baseline expenditures"** (or, the forecast of projected expenditures assuming no measures and structural reforms), is summarized in *Exhibit 22*.

EXHIBIT 22: MAJOR OPERATING EXPENDITURE CATEGORIES PRE-MEASURES

Key baseline expenditure drivers (pre-measures), $M

	FY22	FY23	FY24	FY25	FY26
Payroll (General Fund)	3,134	3,179	3,228	3,279	3,330
Operating expenditures (General Fund)	1,964	1,893	1,933	1,965	1,990
CW appropriations	1,193	1,179	1,125	1,142	1,128
Commonwealth Medicaid expenditures	1,968	2,654	2,754	2,856	2,974
Pension expenditures	2,259	2,237	2,233	2,224	2,215
IFCU & CW SRF Expenditures	2,279	2,297	2,320	2,357	2,400
Federally funded expenditures	5,706	4,935	5,000	5,072	5,150
Other[1]	446	339	300	259	210
Total CW funded operating expenditures[2]	**18,949**	**18,712**	**18,894**	**19,154**	**19,397**

1 Includes Disaster Recovery Cost Match, Restructuring / Title III costs, Social Programs CW funded, Reserve for emergency fund and Budget incentives
2 Does not include capital expenditures, enterprise funds, disbursements to entities outside the 2021 Fiscal Plan, and other non-recurring expenditures

5.2.1 General fund payroll and non-personnel operating expenditures

Payroll expenditures: Despite progress made through the FY2021 budget process, consistent granular payroll data continues to be a challenge for the Government. FY2018 payroll numbers reflect actual expenditures where available and the Certified Budget in cases where actual data was not available (adjusted to reflect reapportionments among agencies). FY2019 was assumed to be equal to FY2018 given the Fiscal Plan Compliance Act, which enacted a payroll freeze except for certain agency-specific adjustments. Beginning in FY2020, base payroll has been assumed to grow by Puerto Rico inflation. As part of the FY2020 and FY2021 budget certification processes, key agencies were analyzed to develop detailed payroll estimates based on agency rosters, actual payroll run rates and anticipated changes to headcount and salaries. Any reduction to baseline payroll expenditure projections from attrition, absenteeism, or workforce reductions is captured through fiscal measures.

Non-personnel operating expenditures: Non-personnel operating expenditures in FY2019 were also assumed to be equal to FY2018 budgeted levels. Thereafter, non-personnel operating expenditures are assumed to grow by Puerto Rico inflation, with select adjustments as necessary. For example, the 2021 Fiscal Plan includes a 10% reduction to FY2022 Special Fund for Economic Development (FEDE, by its Spanish acronym) and Economic Incentive Funds (FIE), Cruise Industry Incentives, Renewable Energy, Export Development, and Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico (CINE) expenditures, an amount which is then taken out of all future years. (In FY2022, these select expenditures reductions are $10 million total.)

5.2.2 Special Revenue Funds

Commonwealth agency Special Revenue Fund (SRF) operational expenditures: The Commonwealth funds a significant portion of its expenses with Special Revenue Funds and previously did not report on these expenses transparently in a consistent manner. Given that SRF

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revenues and expenditures are not part of the General Fund for budgeting purposes, they are not included in the General Fund budget resolutions approved by the Legislature. However, the Oversight Board has certified SRF expenditures starting with the FY2019 budget process, with the objective of applying controls and reporting requirements to ensure transparency and accountability for these revenues and expenditures. With data made available by the Commonwealth, the baseline level of SRF expenses of Commonwealth agencies (excluding IFCUs) has been updated and allocated across agencies (by payroll and non-payroll expenditures). Given the mandate of the Office of the CFO to place controls on SRF expenditures, baseline SRF expenses are forecasted to be equal to the estimated revenues in each year before fiscal measures.

Independently Forecasted Component Unit (IFCU) operational expenditures: Most IFCU payroll and non-payroll expenses grow by inflation, with exceptions for certain expense categories (e.g., healthcare costs grow with medical inflation, variable costs that grow in line with revenues).

The baseline expenditures include **municipality and public corporation PayGo, COFIM, and FAM expenditures**, including all the conditions outlined in *Section 5.1.4*.

5.2.3 Other federal funding

Most federal funds received by the Commonwealth are passed through to residents directly in the form of social benefits (e.g., TANF, WIC), but federal funds are also used to cover operating expenditures in many agencies. Expenditures related to pass-through federal funds are set equal to the associated revenue stream. Baseline expenditures related to operating expenditures are set based on the FY2018 federal funds budget reported by the Government (updated in select cases for new information received FY2019-2021) and grow with inflation (and in some cases population). In the case of Community School Program (largely Title I funding), revenues will grow with growth in total federal funding - presumed to track U.S. inflation - but decline with decreasing enrollment, which is the most salient determinant of Puerto Rico's annual allocation. At the same time, the 2021 Fiscal Plan assumes fixed costs associated with providing these services may not decline at the same rate given historical Commonwealth behavior of maintaining infrastructure such as schools and program staff despite population decline. Therefore, the 2021 Fiscal Plan assumes that—without fiscal measures—the General Fund will cover any cost increases that continue despite declining Title I federal support.

5.2.4 Medicaid expenditures

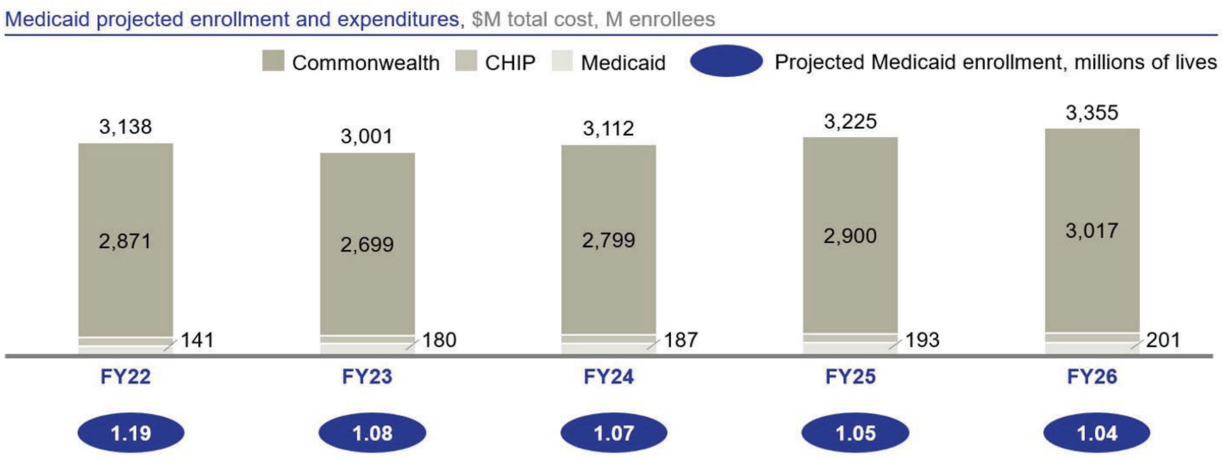
Medicaid costs are projected to reach nearly $3.5 billion annually by FY2026. These costs are primarily driven by premiums, calculated by multiplying the weighted-average cost per member per month (PMPM) by the estimated number of people enrolled in the Medicaid (federal and Commonwealth-qualified), CHIP, and Platino dual-eligible programs. Projections also include other direct health expenditures (e.g., Hepatitis C, HIV, and pulmonary programs) that do not flow through managed care. These costs are exclusive of non-medical administrative costs to ASES and the Department of Health.

PMPM costs are projected to grow at 8.9% in FY2021 as a result of increased healthcare utilization following the pandemic. Relatedly, actual PMPM growth is now projected to have been just 1.6% from FY2019 to FY2020. As healthcare utilization resumes to normal levels, growth rates are expected to return to previous projections (of 5.15%) by FY2025. In the long term, costs increase according to an age-mix-adjusted PMPM growth rate (of 4.75% by FY2051, for example), which reflects a shift to a younger enrollment population.

Enrollment rates are primarily tied to overall population decline on the Island. However, the first half of FY2022 is projected to see an enrollment increase, independent of overall Island population changes. In the first quarter, this change is primarily related to the decision to raise the Puerto Rico Poverty Line (PRPL) through September 30, 2021. Since the PRPL is a partial

determinant of Medicaid eligibility, this increase allowed previously unenrolled residents to enroll during the COVID-19 pandemic. This COVID-19-related increase is projected to persist into the second quarter of FY2022 to a slightly lesser degree, before returning to baseline healthcare population projections by January 1, 2022 (Q2 FY2022). The effects of this increased enrollment during FY2022 can be seen in *Exhibit 23*.

EXHIBIT 23: PROJECTIONS FOR MEDICAID AND CHIP BASELINE PREMIUM EXPENDITURES AND ENROLLMENT (NOT INCLUDING PLATINO)



Note: Only includes Medicaid (CHIP, Commonwealth- and federally-funded). Excludes Platino dual-eligible, as well as non-direct premium costs (e.g., HIV/PDP, Health Insurance Provider Fee, Air Ambulance, MC21 Administrative Fee, Super Utilizers, and Pulmonary).

Other Commonwealth Medicaid expenditures, which include, HIV/PDP, Air Ambulance, MC21 administrative fee, Super Utilizers, and Pulmonary, among others, are projected to grow at the rate of Puerto Rico healthcare inflation. Separate from those costs is the Health Insurance Tax (HIT), calculated each year by the Federal Government and estimated here to be 1.80% of the prior year's total premiums.[34] The Further Consolidated Appropriations Act, 2020 repealed the HIT requirement. Thus, the 2021 Fiscal Plan only reflects the estimated HIT fee anticipated to be required to be paid in FY2021 on FY2020 premium expenditures. Thereafter, the HIT fee is eliminated from projections.

"Platino" dual-eligible program expenditures were estimated using a consistent $10 PMPM over FY2019-FY2024 representing payment for wrap-around services supplementing main Medicare coverage (from FY2024 onwards, this cost grows by the PMPM growth rate). Enrollment is projected to be affected similarly to Medicaid enrollment. "Platino" costs are expected to remain between $29 million and $31 million from FY2021-FY2024, at which point they grow consistently over the remainder of the period.

5.2.5 Commonwealth pension expenditures

Baseline pension costs: Projections rely on demographic and actuarial estimations for Employees' Retirement System (ERS), Teachers' Retirement System (TRS), and Judiciary Retirement System (JRS) populations and benefit obligations. Since FY2018, pension benefits for all plans have been paid on a pay-as-you-go basis. Starting in FY2022, pensions baseline costs (reflecting System 2000 segregation) are projected to decrease progressively from $2.3 billion in FY2022 to $1.2 billion in FY2051, with an average annual cost across the period of $1.9 billion. The 2021 Fiscal Plan baseline pension expenses are ~$1.4 billion lower (FY2022-FY2051) than in the 2020 Fiscal Plan, primarily driven by updates incorporating new census and mortality data.

[34] Sec 4003 of Public Law 115-120—Jan. 22, 2018. "Fourth continuing appropriations for Fiscal Year 2018, Federal Register Printing Savings, Healthy kids, health related taxes, and Budgetary effects," at Based on actuarial estimates provided by ASES

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5.2.6 Appropriations

Municipalities: Baseline municipal appropriations are projected to remain constant at ~$220 million annually, which represents the FY2018 appropriation level exclusive of a $78 million *one-time* allotment to municipalities made in the aftermath of Hurricanes Irma and Maria.

University of Puerto Rico (UPR): The UPR baseline appropriation is $717 million from FY2019 to FY2023 and grows by inflation starting in FY2024.

Highways and Transportation Authority (HTA): HTA is currently funded through a combination of own revenues, federal funds, and Commonwealth funds (including both a capital appropriation and an operating appropriation). Within the 2020 HTA Fiscal Plan, toll fares are used to cross-subsidize capital and operating expenditures on non-toll roads. The 205(a) letter of January 29, 2021 recommended that HTA be reorganized into a toll road entity, with non-toll roads managed by DTOP and transit assets managed by PRITA. Therefore, consistent with the 205(a) letter recommendation, the 2021 Fiscal Plan increases the HTA operating transfer to cover the full cost of non-toll assets, marking the first step towards the implementation of the Transportation System Reform outlined in *Chapter 11*. The appropriation does not include funding for the HTA emergency reserve, nor does it draw down existing balances. It also assumes toll roads have access to federal funds until reorganization is complete (assumed FY2023), but not thereafter. As a result, over FY2025-FY2051, the 2021 Fiscal Plan includes an average annual operating appropriation of ~$133 million and average capital appropriation of $68 million per year. The Commonwealth operating transfer may be reduced in a proportionate amount should the Federal Highway Administration (FHWA) federal funding for non-toll assets appropriated to HTA increase.

The HTA operating transfer is intended to be used by HTA solely to fund costs associated to non-toll assets and is not available to be used for any other purposes, including funding costs and projects above and beyond those contemplated in HTA's Certified Fiscal Plan.

5.2.7 Other operating and capital expenditures

Utilities: The 2021 Fiscal Plan uses the estimated billings for electric and water costs provided by PREPA and PRASA, respectively on agency level. Estimated water billings from PRASA are projected to grow at the same rate as water rate increases over the period of FY2021-FY2025; thereafter, PRASA billings are projected to grow at water rate increases and then according to inflation. Estimated electric billings from PREPA are projected to grow at the same rate as power rate increases over the period of FY2021-FY2051.

Parametric insurance: The 2021 Fiscal Plan includes an annual investment of ~$35 million to cover the Commonwealth's portion of the annual cost of parametric insurance. The parametric insurance program is supplemental to the existing budgeted premiums for renewing current traditional insurance policies. The following conditions applicable to Commonwealth entities are placed on the requested funding:

- Develop a sophisticated insurance plan with a comprehensive program that considers the available markets, costs, meeting Operations and Maintenance (O&M) requirements, and levels of coverage. This would include conducting a risk assessment; analyzing expected O&M costs on a building by building basis; identifying the types of insurance needed to protect against risk; identifying insurance gaps, selecting the authority needed to develop, implement and enforce the plan; and crafting the financial arrangement structure for funding the plan and paying for losses
- Strategically consider and prioritize options to supplement the existing insurance coverage (including identifying how the Commonwealth will meet flood insurance requirements and considering expanded limits on existing policies, a separate excess insurance policy above current limits, or a Parametric policy and/or Catastrophe ("CAT") bond)

- Engage the Insurance Commissioner on certification criteria

Insurance (PRIMAS): The Commonwealth bears costs related to insurance premiums (e.g., property insurance, liability insurance). Government reporting on these costs has not been transparent or consistent over time (e.g., not all agencies report these costs independently of other operating expenses, reporting is not consolidated across General Fund and Special Revenue Funds). The Government reported that insurance costs increased from FY2018 to FY2020 due to Hurricanes Maria and Irma. Adjustments were made based on agency reported needs for FY2021 and FY2022 (e.g., costs for Department of Housing have been reduced, costs for PRDE and Institute of Puerto Rican Culture have been increased).

Capital expenditures: Centrally-funded General Fund maintenance and capital expenditures of the Commonwealth (excluding PREPA, PRASA, HTA self-funded capital expenditures and one-time transfers) are expected to grow by inflation from a baseline of $337 million FY2022 to FY2040, at which point maintenance capital expenditures increase to $677 million[35] (1.9% of GNP[36]) and growth with GNP, to account for the new level of capital stock the Commonwealth will be responsible for maintaining post-disaster reconstruction (see *Section 4.2* for more information). In FY2022, ~$53 million of the baseline expenses will be appropriated to HTA (as part of the total appropriations), with the remaining ~$284 million for use by the Commonwealth. The 2021 Fiscal Plan includes annual Special Revenue Fund capital expenditures for the Commonwealth agencies (and the Public Buildings Authority) of $6 million for FY2022 and $22 million (based on historical agency needs) for FY2023 onwards.[37]

5.2.8 Reconstruction and restructuring related expenditures

Cost-share for disaster relief funding: Federal funds for FEMA's Public Assistance, Individual Assistance and Hazard Mitigation programs typically require a local match from the entity receiving them (anywhere from 10-25% of funds). In the case of Puerto Rico, the 2021 Fiscal Plan projects that the Commonwealth will need to cover an estimated ~10% of federal Public and Individual Assistance funds that are obligated to them, amounting to $2.6 billion from FY2018-FY2035. (Based on obligation data, instrumentalities are assumed to shoulder a further $1.6 billion in total cost-match expenditures during the same period). A portion of the Commonwealth and instrumentalities' cost-match expenditures are projected to be covered by CDBG funds from FY2020 to FY2035, which amounts to $2.7 billion. As a result, instrumentalities and the Commonwealth are anticipated to need to cover $500 million and $1 billion, respectively, out of pocket.

After accounting for excess funds budgeted for cost share in FY2018- FY2021 (when DRF disbursements were anticipated to be higher), as well as $135 million in unspent cost share funds considered available for future cost share needs, the ultimate out-of-pocket cost share burden for the Commonwealth is $1.2 billion. Moving forward, cost share matching funds are to be used only on approved projects/ requirements under FEMA's Individual Assistance, Public Assistance, and Hazard Mitigation programs. Any unused cost share matching funds in a given fiscal year are to be rolled over the following fiscal year and remain available for use in meeting cost share requirements for approved projects/requirements under FEMA's programs. The restriction of use of cost share matching funds is applicable to funds in the current year as well as any funds rolled over to the subsequent years. The use of these funds must be coordinated with CDBG-DR and CDBG-MIT in meeting cost share requirements.

Restructuring-related costs: Commonwealth restructuring-related expenditures are projected to be $622 million for the period FY2022 to FY2025, and are comprised of all professional fees, including those of the Unsecured Creditors' Committee, the Retiree Committee,

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[35] Includes General Fund portion of 1.9% of GNP and the HTA Capex appropriation (with the 10% reduction on General Fund unallocated Capex)

[36] Corresponds to the state average of capex as percentage of GNP

[37] Of this amount, $2 million per year goes to Public Buildings Authority (an IFCU) for recurring needs

the Government (mostly the Puerto Rico Fiscal Agency and Financial Advisory Authority, or AAFAF by its Spanish acronym), and the Oversight Board. The estimate for professional fees in the 2021 Fiscal Plan was developed based on estimates prepared by the Oversight Board and fees provided by the Government as part of the Government's submitted 2021 Fiscal Plan. Fees were also benchmarked versus comparable restructuring situations that yield an average professional-fee-to-funded-debt ratio of 2.08% and median ratio of 2.33% relative to 2.48% projected for the Commonwealth (*Exhibit 24*) In total, for the period from FY2018 to FY2026, the restructuring-related expenditures projection is ~$1.6 billion. Uncertainty stemming from the series of recent natural disasters and ongoing COVID-19 pandemic has resulted in an extended restructuring process contributing to the overall estimate. For some perspective, the City of Detroit restructuring (the largest municipal restructuring prior to the Commonwealth of Puerto Rico) took 17 months (July 2013 to December 2014); while the restructuring of the Commonwealth is now approaching 4 years after experiencing hurricanes, earthquakes and the impact of COVID-19. With respect to the Oversight Board's operating costs, they are forecast to be $75 million per year from FY2022 to FY2026 on a *pre-measures* basis (or $65 million after measures).

EXHIBIT 24: PROJECTED PROFESSIONAL FEES RELATIVE TO OTHER MAJOR RESTRUCTURINGS

Professional fees for restructuring

	Date filed	Outstanding debt, $	Total fees and expenses, $	Fees to funded debt, %
City of Detroit, Michigan	Jul. 2013	6,400,000,000[1]	177,910,000	2.8
Residential Capital, LLC	May. 2012	15,000,000,000	409,321,308	2.7
Sabine Oil & Gas Corp.	Jul. 2015	2,800,000,000	78,553,223	2.8
Caesars Entertainment Operating Company	Jan. 2015	18,000,000,000	258,278,005	1.4
Lehman Brothers Holdings Inc.	Sep. 2008	613,000,000,000	956,957,469	0.2
Lyondell Chemical Company	Jan. 2009	22,000,000,000	205,932,292	0.9
American Airlines	Nov. 2011	11,000,000,000	391,637,858	3.6
Washington Mutual, Inc.	Sep. 2008	8,000,000,000	271,085,213	3.4
Edison Mission Energy	Dec. 2012	5,000,000,000	96,244,628	1.9
Energy Future Holdings Corp.	Apr. 2014	40,000,000,000	450,110,233	1.1
Puerto Rico[2]	**2017**	**64,000,000,000[3]**	**1,584,050,751**	**2.5**

Summary Statistics

Avg.	2.08%
Max	3.56%
Min	0.16%
Med	2.33%

Puerto Rico involves added complexity as the largest public sector restructuring in the history of the United States

1 Excludes pensions and other retirement liabilities
2 Debt amount for Puerto Rico does not include over $50 billion in unfunded pension liabilities.
3 From "Basic Financial Statements and Required Supplementary Information" for fiscal year ended June 30, 2016 prepared by the Puerto Rico Department of the Treasury; inclusive of unaccreted interest of capital appreciation bonds; rounded up from $63.9B for consistency with other cities

Emergency reserve: The purpose of the Emergency Reserve fund is to expedite response activities and, upon request, provide the Commonwealth agencies, public corporations and affected municipalities ("Emergency Reserve Recipients") with capital to quickly begin response activities that exceed their capacity during declared events in Puerto Rico. Starting in FY2019, the Commonwealth must set aside $130 million annually into an emergency reserve that is to total $1.3 billion, or ~2.0% of FY2018 GNP. The methodology supporting this reserve is informed by

guidance provided to other Caribbean islands by the International Monetary Fund in defining an adequate emergency reserve (2-4% of GNP, accumulated at 0.5% per year).[38]

Restrictions placed on these funds must ensure that it is only used in case of an extraordinary event like natural disasters or as otherwise agree with the Board; the Commonwealth can only make disbursements with approval from the Oversight Board. Historically, the Oversight Board has authorized use of the emergency reserve in response to the 2017 hurricanes (Maria and Irma), the 2020 earthquakes impacting the southwestern part of Puerto Rico, and the COVID-19 pandemic. Moving forward, a fund advance will require the following:

- The Governor would need to declare a state of emergency
- AAFAF requests FOMB access to the emergency reserve fund for a finite period
- Once FOMB authorizes access to the emergency reserve funds; OMB would submit to FOMB requests from the Emergency Reserve Recipients to approve amount and usage of funds
- Amounts approved by the FOMB and disbursed to the Emergency Reserve Recipients would need to be replenished not later than the following fiscal year
- Emergency Reserve Recipients that received funds from the emergency reserve fund are required to file with FEMA a Request for Public Assistance (RPA) and Project Worksheet to ensure that any federal reimbursements to Emergency Reserve Recipients are replenished into to the emergency reserve state fund
- Emergency Reserve Recipients are required to update OMB on a quarterly basis on the process of Public Assistance with FEMA
- OMB must provide quarterly reporting to FOMB on the use of authorized funds (see *Chapter 21* for more information)

5.2.9 Expenditure gross-ups

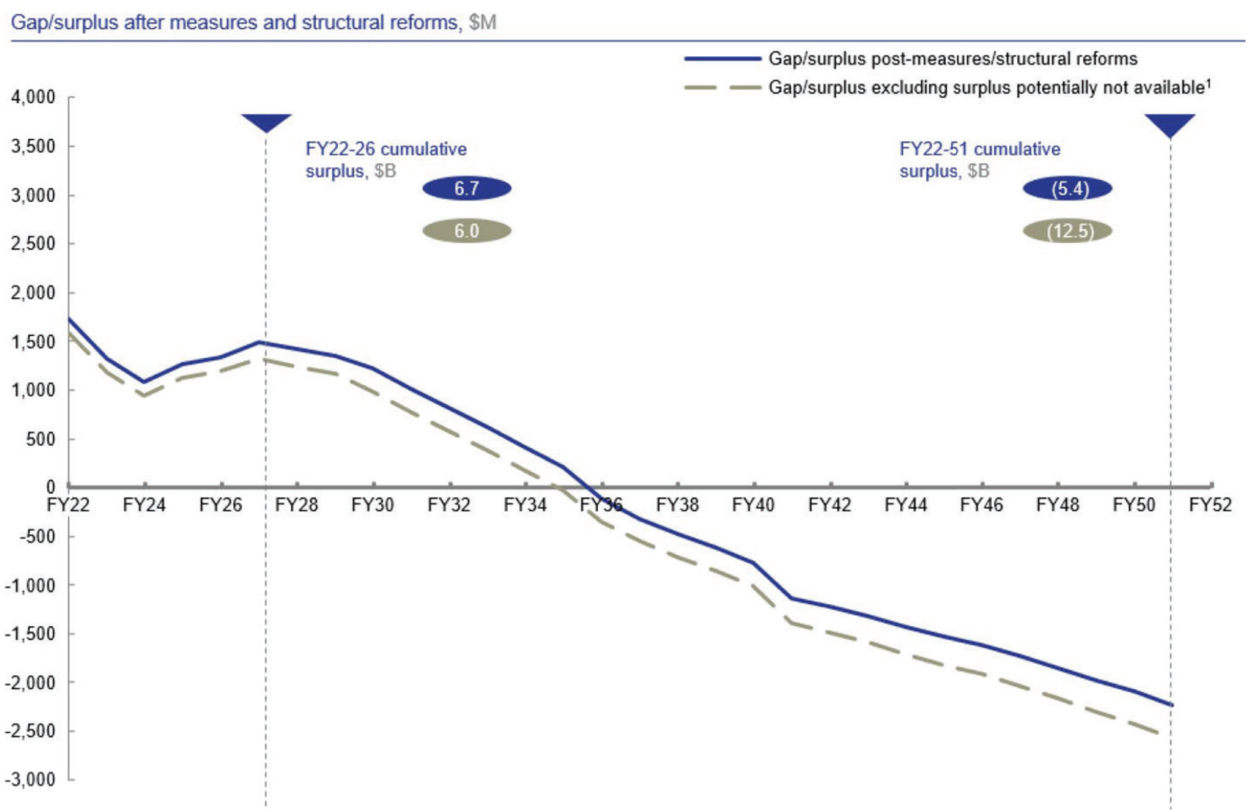
For each of the gross-up revenue items included in *Section 5.1.5* and *Section 5.1.6*, an equivalent expenditure is included in the baseline expense forecast.

5.3 Surplus potentially not available for the Commonwealth

The 2021 Fiscal Plan financial projections show the surplus generated by all entities covered by the Commonwealth Fiscal Plan. However, some of the surplus is generated by Commonwealth public corporations, and the Commonwealth's ability to access such surplus amounts could be problematic without further legislative action. As such, the 2021 Fiscal Plan also represents what the surplus would be if these funds were inaccessible (*Exhibit 25*).

38 IMF Bahamas Article IV report published March 22, 2018

EXHIBIT 25: SURPLUS POTENTIALLY NOT AVAILABLE FOR COMMONWEALTH



1 These surplus amounts are generated by Commonwealth corporations and the Commonwealth's ability to access such surplus amounts could be at risk without further legislative action

Chapter 6. Long-term projections and Debt Sustainability Analysis (DSA)

6.1 Long-term macroeconomic, revenue, and expenditure projections

The 2021 Fiscal Plan projects a post-pandemic recovery in FY2021 and FY2022, followed by limited real growth between FY2023 and FY2029 (average real growth of 0.2% during this period). As disaster relief funding and the spending of COVID-19 federal and local stimulus funds drop off considerably and structural reform growth rates are muted, GNP growth returns to its historical negative trend starting in FY2030. Population is estimated to steadily decline at an average rate of ~1.2% annually, due to a combination of outmigration and demographic factors. Inflation is estimated to settle at a long-term run-rate of 1.5%-1.9% as it is expected to gradually approach to mainland forecasts.

Most revenues are projected to grow with nominal GNP in the long term.[39] This includes SUT, corporate income tax, personal income tax, non-resident withholding not paid by Act 154 entities and most General Fund revenues. Exceptions include:

[39] This methodology is consistent with general IMF forecasting approaches and is intended to capture the overall change in consumption, investment and production within the economy

- **Alcoholic beverages and cigarette-related tax revenues**, which are expected to grow by inflation and population. This assumption is supported both by relatively constant alcohol consumption in growing economies along with the long-term decline in cigarette consumption both in Puerto Rico and the U.S. mainland.

- **Rum excise on offshore shipments,** is expected to grow by U.S. mainland population and is partially driven by the statutory waterfall by which rum excise taxes are paid into the General Fund.

- **Non-resident withholding (NRW) and Act 154 revenues,** which will face declines due to U.S. tax reform, supply chain diversification, and patent expirations. This decline had begun during FY2020, with incremental declines forecasted in each year through FY2024 (~40% cumulative decline versus FY2018 baseline). No further declines are anticipated through FY2027; however, additional loss of Act 154 revenue are expected in FY2028-FY2031, such that FY2031 revenues are projected to be ~60% below baseline. This leads to a steady state of $859 million in annual Act 154 revenues beginning in FY2031. NRW revenues associated with Act 154 taxpayers have also declined. Based on past and current performance, NRW payments are projected at $170 million in FY2022 (~60% below baseline). NRW revenues not related to Act 154 payers continue to grow with nominal GNP.

- **Independently Forecasted Component Units (IFCU) revenues**, which are projected on a line item basis and grow by the same values as in the short-term projections (largely by nominal GNP, with exceptions for those related to healthcare, population, or other factors).

- **Federal fund revenues,** which grow based on historical and statutory appropriations. The standard cap for **Medicaid matching funds** grows by the medical services component of CPI-U and CHIP funding grows proportional to growth of premiums and enrollment. However, several significant sources of federal funding for Medicaid (e.g., the Affordable care act or ACA, the Bipartisan Budget Act of 2018 or BBA, the Further Consolidated Appropriations Act, the Families First Act) are only legislated through the first quarter of FY2022, or through September 30, 2021. **This creates a "fiscal cliff" starting in FY2022 whereby the share of Medicaid funding borne by the Commonwealth increases significantly.** Between FY2023 and FY2051, average annual federal funding for Medicaid is 15.7% of total expenditures (versus 38% in FY2022). While additional federal funding for Medicaid may be provided in the future, the 2021 Fiscal Plan only reflects federal funding provided by currently-enacted legislation.

Just as most revenues grow by GNP, most **expenditures grow by standard inflation** after FY2026. Exceptions include:

- **Medicaid premiums** grow at a faster pace than standard inflation and are instead grown by a PMPM growth rate and population change. The PMPM growth rate is estimated through actuarial analysis of historic utilization trends and projected demographic changes on-Island. Long-term PMPM growth trends (FY2027-FY2051) will be 4.95% on average.

- **Capital expenditures** are anticipated to rise to 1.9% of GNP (in line with the mainland average) by FY2041 to account for an enhanced capital stock needing maintenance after the significant reconstruction efforts in the wake of Hurricanes Maria and Irma. This change in methodology increases the annual Commonwealth average to ~$759 million over FY2041-FY2051, as Puerto Rico must sustain a higher level of maintenance and rely on its own funding for capital investments (rather than disaster relief funding).

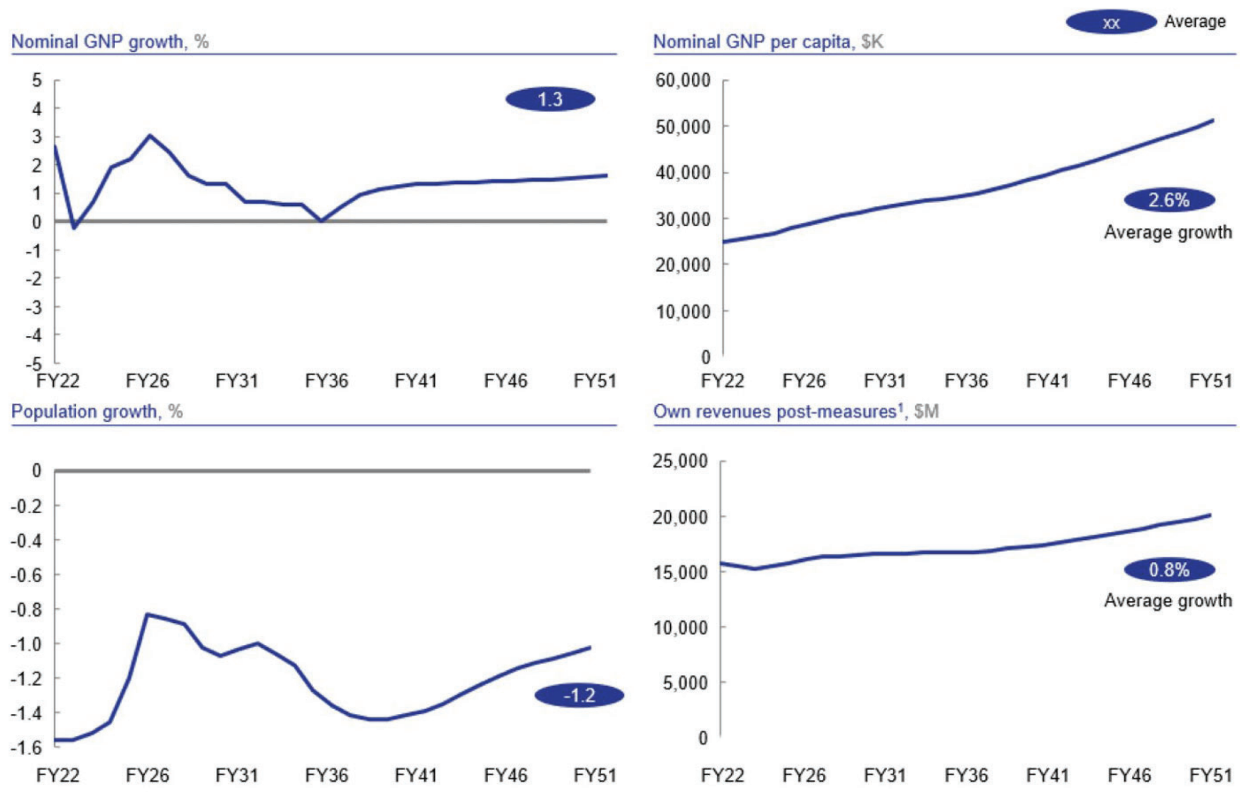
- **Cost match for disaster-related federal funding** reaches an average of ~$28 million from FY2027 to FY2035, after full usage of CDBG-DR funds available for local cost matching. The Commonwealth is not responsible for the portion of funds allocated to instrumentalities (e.g., PREPA, PRASA, HTA, UPR).

- **Independently Forecasted Component Units (IFCU) expenditures** are forecasted on a line item basis. Most grow with standard Puerto Rico inflation with some exceptions, such as healthcare- or claims-related expenditures. Over the long-term, the expenses of some healthcare-related IFCUs (e.g., Cardio) are projected to grow faster than revenues, creating a deficit. This 2021 Fiscal Plan assumes deficits related to healthcare will be funded by the Commonwealth.

- **Fiscal measures** grow by their relevant macroeconomic indicator (e.g., revenues by nominal Puerto Rican GNP, expenditures by Puerto Rican inflation, healthcare measure by health inflation and population).

The long-term macroeconomic and financial projections are shown below. *Exhibit 26* shows the forecasted Nominal GNP, which maintains a positive growth for almost all years (mainly due to an stable and positive inflation), the estimated rate at which population is expected to decline, the growing Nominal GNP per capita that results from the combination of the first two, and the corresponding trend of own revenues. The estimations of all metrics, as well as corresponding projected revenues, expenditures, and fiscal gap or surplus are shown on *Exhibit 27* for selected years. Finally, *Exhibit 28* shows what these projections are with or without structural reforms.

EXHIBIT 26: FY2022-51 FINANCIAL PROJECTIONS



1 Own revenues includes all Commonwealth-collected revenues and excludes all federal transfers and gross up revenues; includes impact of COFINA settlement

EXHIBIT 27: LONG-TERM FISCAL PLAN PROJECTIONS POST-MEASURES AND STRUCTURAL REFORMS

Financial projection detail post-measures and structural reforms, units as labeled

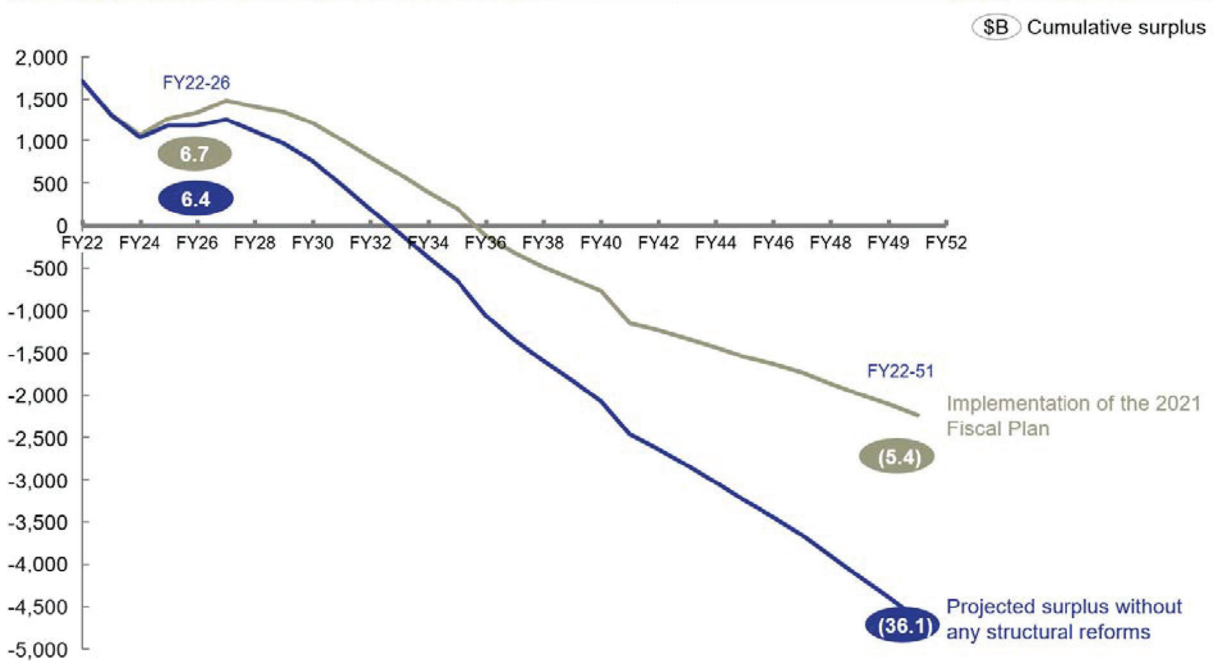
Projection	FY26	FY31	FY36	FY41	FY46	FY51
Population, thousands	2,764	2,637	2,496	2,324	2,178	2,062
Population growth rate, %	-1.2%	-1.1%	-1.3%	-1.4%	-1.2%	-1.0%
Real growth rate[5], %	**0.7%**	**-0.2%**	**-1.5%**	**-0.5%**	**-0.4%**	**-0.3%**
Nominal GNP, $M	**76,759**	**84,555**	**86,769**	**91,303**	**97,809**	**105,594**
Nominal GNP per capita, $	27,770	32,062	34,769	39,284	44,913	51,208
Nominal GNP per capita growth, %	3.4%	2.4%	1.3%	2.8%	2.7%	2.7%
Inflation, %	**1.5%**	**1.5%**	**1.6%**	**1.9%**	**1.9%**	**1.9%**
Disaster funding, $M	5,883	4,546	-	-	-	-
Revenues[1], $M	**20,914**	**22,135**	**22,743**	**24,016**	**25,878**	**28,069**
Commonwealth GF and SRF revenues	15,757	16,545	16,689	17,406	18,627	20,081
Federal transfers[2]	5,158	5,591	6,053	6,610	7,251	7,988
Expenditures[1], $M	**(19,581)**	**(21,126)**	**(22,862)**	**(25,165)**	**(27,505)**	**(30,306)**
Commonwealth-funded expenditures	(14,431)	(15,540)	(16,807)	(18,542)	(20,233)	(22,278)
Federally-funded expenditures	(5,150)	(5,586)	(6,055)	(6,623)	(7,272)	(8,028)
Gap / surplus, $M	**1,334**	**1,009**	**(119)**	**(1,149)**	**(1,627)**	**(2,237)**
Contractual debt service payments[3]	(1,668)	(1,867)	(1,144)	(990)	(163)	(50)
Net gap / surplus, $M	**(334)**	**(858)**	**(1,264)**	**(2,138)**	**(1,790)**	**(2,286)**
Surplus potentially not available[4], $M	*152*	*238*	*234*	*253*	*294*	*339*

1 Revenues and expenditures excluding gross up adjustments; revenues do not include Earned Income Tax Credit
2 Does not include the recently approved additional federal funding for the local EITC extension, since it would be received as a reimbursement
3 Debt service based on prepetition contractual debt obligations. Presented for illustrative purposes only and does not represent anticipated future payments on restructured debt. Includes GO, PBA, CCDA, PRIFA, PFC, ERS. The 2021 Fiscal Plan does not assume any predetermined outcome of ongoing litigation with respect to GO bonds
4 These surplus amounts are generated by Commonwealth corporations and the Commonwealth's ability to access such surplus amounts could be at risk without further legislative action
5 Adjusted for income effects

EXHIBIT 28: ANNUAL GAP/SURPLUS BASED ON IMPACT OF STRUCTURAL REFORMS

Annual gap/surplus based on impact of structural reforms, $M (nominal)

Scenario (SR growth uptick)



The 2021 Fiscal Plan shows short-term surpluses driven by significant federal relief as well as fiscal measures and structural reforms. Long-term deficits are driven by healthcare costs that outpace GNP growth (even after reforms, in part due to the Medicaid "fiscal cliff"), lack of robust structural reforms, phase out of disaster relief funding, and declining Act 154 revenues.

While the 2021 Fiscal Plan projects deficits from FY2036 onward, the Government will be required to take additional measures that go beyond the FY2022-26 framework of this 2021 Fiscal Plan as the Puerto Rico Constitution requires the Government to operate within a framework of fiscal balance. Accordingly, what follows are a set of options that can be considered to obtain fiscal balance in the out-years. Some of these reforms – which would reduce deficits and therefore make funds available for a variety of potential uses, including investment in the people of Puerto Rico – have been proposed by the Oversight Board, but have not been adopted. The Government must take up these reforms and implement them to realize their benefits.

- **Securing additional permanent federal funding for Medicaid** of ~$1 billion per year (and growing with inflation) is projected to increase the FY2022-51 surplus by ~$20 billion if begun in FY2031 and ~$10 billion if begun in FY2041.

- **Imposing a cap on total healthcare expenditure growth** at 2% above standard inflation is projected to result in savings of ~$14 billion by FY2051 if implemented in FY2031 and ~$2.4 billion if implemented in FY2041.

- **Private sector labor reform,** generating an additional 0.50% GNP growth over two years, by repealing Law 80 of May 30, 1976, which would make Puerto Rico an employment at-will jurisdiction, similar to its principal competitor mainland states, such as Florida. This would reduce the cost of hiring workers on the Island, improving the environment for local businesses and potentially attracting additional investment from the mainland into Puerto Rico. The reform is projected to increase the FY2022-51 surplus by ~$13 billion if implemented in FY2031 and by ~$4 billion if implemented in FY2041.

- **Ease of doing business reform,** generating an additional 0.15% GNP growth, based on instituting trading across borders reform, and repealing restrictive and inefficient regulations, and implementing a comprehensive reform of the Transportation system, similar to the one described in *Chapter 11*, which would contribute to unlock greater impact across all other ease of doing business initiatives, allowing Puerto Rico to better compete for new investments with jurisdictions around the world. The FY2022-51 surplus is projected to increase by ~$4 billion if implemented in FY2031 and by ~$1 billion if implementation takes place in FY2041.

- **Overhaul of the tax system of Puerto Rico** to stimulate growth by lowering the statutory marginal tax rates and broadening the tax base by eliminating many exemptions, deductions, credits, and incentives. This would simplify the tax paying structure and process, improving the business environment and delivering long-term growth benefits up to 0.5% spread over five years. The reform is projected to increase the FY2022-51 surplus by ~$11 billion if implemented in FY2031 and by ~$3 billion if implementation takes place in FY2041.

- **Growing the pharmaceutical and medical devices manufacturing sector** given the unique opportunity for Puerto Rico to be a center of excellence and play a leading role in the national portfolio of locations for expanded domestic manufacturing in this sector. The physical infrastructure, human capital, and regulatory processes are already established and well positioned. Previous analyses published by the Board had shown the potential value on economic growth and employment that this effort could have.

Risks to the long-term projections in the 2021 Fiscal Plan. While the 2021 Fiscal Plan projects that ~$15.2 billion in surplus will be generated through FY2022-FY2035, there are several variables that have a material impact on the long-term financial projections. The extent at which the economic activity will recover from the COVID-19 pandemic impact and the time it will take to return to pre-pandemic levels remain highly uncertain and could prove to be narrower and longer-lasting than anticipated. Moreover, revenues could be compromised through lower growth

generated by delays or failures to implement structural reforms, lower than expected federal funding, and/or less efficient spending on capital than projected. Both revenues and expenditures could be impacted by demographic shifts not yet seen on the Island or other external shocks or natural disasters. Finally, expenditures could be impacted if, once the Oversight Board is terminated, the Government reverses its focus on fiscal discipline and allows Government expenditures to increase.

6.2 Debt Sustainability Analysis (DSA)

The DSA is intended to provide a framework for assessing the long-term capacity of the Government to pay debt service on its bonded debt. Debt levels post-restructuring need to be sustainable over the long-term and consistent with both a minimal risk of default on the restructured debt and a recovery of market access for future new money borrowings for ongoing infrastructure investment. The analysis begins with the 2021 Fiscal Plan and is then informed by the debt sustained by the most appropriate peer group against which to benchmark Puerto Rico. The DSA then applies rating agency metrics for that benchmark group to Puerto Rico to arrive at an assessment of what debt levels are sustainable in light of long-term projections and the peer metrics. Net tax-supported debt is defined as debt payable from statewide taxes and other general resources, net of obligations that are self-supporting from pledged sources other than state taxes or operating resources (such as utility or local government revenues). Prior to the enactment of PROMESA, Puerto Rico had approximately $45 billion in tax-supported debt with a declining economy and no guarantee of sustained federal funding. Net tax-supported debt is comprised of GO, PBA, COFINA, PRIFA, HTA, CCFA, ERS, Public Finance Corporation (PFC), and other intergovernmental loans.

US states as peer comparables: Like U.S. states, Puerto Rico does not control its own currency, has no access to IMF restructuring support programs or similar international sovereign relief funding packages, and traditionally has been reliant on access to the same long-term municipal bond market used by mainland U.S. states to finance their capital needs. Puerto Rico's bonds are also rated by the same rating agency analyst groups that assign ratings to mainland U.S. states, not by foreign sovereign bond rating analysts. For these and other reasons, Puerto Rico has more similarities to U.S. states than to sovereign nations. By virtually any measure tracked by the rating agencies, Puerto Rico's existing debt levels are clear outliers relative to these U.S. state peers (*Exhibit 29*).

Hacienda must take all necessary steps to ascertain proper classification of all excise tax revenues collected through SURI on a timely basis, but not later than December 2021.

17.3 Implementation and enforcement of revenue measures

The following implementation plan details the continuation of the Commonwealth's efforts to improve tax administration.

17.3.1 Creation of a tax expenditure report and regular reporting

In order to provide a critical element of fiscal responsibility and transparency, the Government must regularly produce a tax expenditure report, which includes a comprehensive list of revenue losses attributable to provisions of the Puerto Rican tax code that deviate from the tax structures benchmark law. It is essential to know how much revenue is foregone because of tax incentives and to periodically review such expenditures to ensure they continue to meet their strategic objective. Having a clear and accurate understanding of what the Government spends through tax expenditures is critical to ensuring the expenditures are continuing to contribute to economic growth and opportunity.[324]

In response to the 2019 Fiscal Plan requirements, the Government published its inaugural Tax Expenditure Report in September 2019 for tax expenditures associated with tax year 2017. For the first time in Puerto Rico's history, taxpayers and the Government have better visibility into the full scope of tax expenditures being offered, together with a description and approximate cost of each expenditure. As shown in *Exhibit 123*, the 2017 Tax Expenditures Report provided many key insights into Puerto Rico's use of tax expenditures as an economic development tool, including the fact Puerto Rico issues more than 300 tax incentives with total foregone revenue in excess of $21 billion. This analysis also revealed, for the first time, as illustrated in *Exhibit 124* and *Exhibit 125*, that Puerto Rico offers a far more generous tax incentive program far more generous than virtually every other jurisdiction in the U.S. as a share of the economy or total tax collections.

[324] Tax Policy Center, Urban Institute & Brookings Institution, "State Income Tax Expenditures"

EXHIBIT 123: TAX EXPENDITURES IN PUERTO RICO RELATIVE TO OTHER JURISDICTIONS

Total tax expenditures by count[1]

	Credits	Deductions	Exclusions	Exemptions	Preferential Tax rate	Deferrals	Total
Individual	28	10	8	47	11	-	104
Corporations	62	9	3	35	27	6	142
SUT	-	-	4	23	-	-	27
Excise tax	1	-	16	12	-	-	29
Total	91	19	31	117	38	6	302

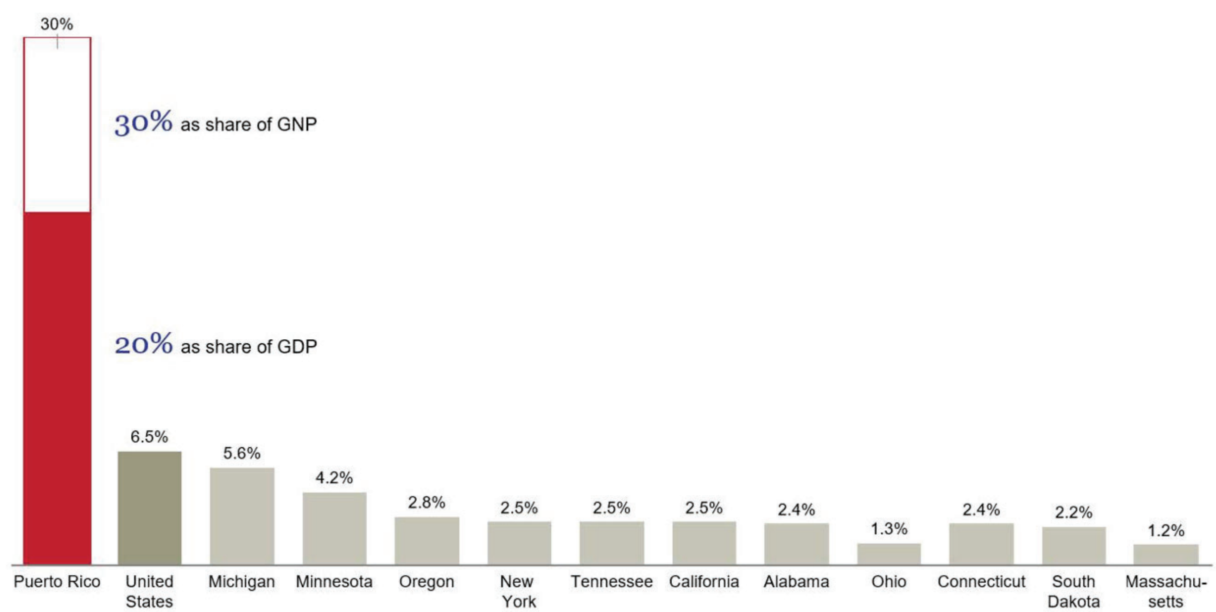
Total tax expenditures by dollar amount[1], $ in million

	Credits	Deductions	Exclusions	Exemptions	Preferential Tax rate	Deferrals	Total
Individual	$76	$348	$187	$446	$203	-	$1,260
Corporations	144	13	5	72	15,864	-	16,098
SUT	-	-	580	2,765	-	-	3,345
Excise tax	8	-	471	13	-	-	491
Total	$152	$13	$1,056	$2,850	$15,846		$21,194

1 Puerto Rico's Tax expenditure report identifies $26.4 bn of tax expenditure. However, some of the components of this total are estimates of the SUT base, rather than the revenue forgone from a tax on that base (i.e., SUT rate * base). These estimates were adjusted accordingly for SUT tax expenditures related to vehicles, electricity, gasoline, and water.

SOURCE: 2017 Tax Expenditures Report

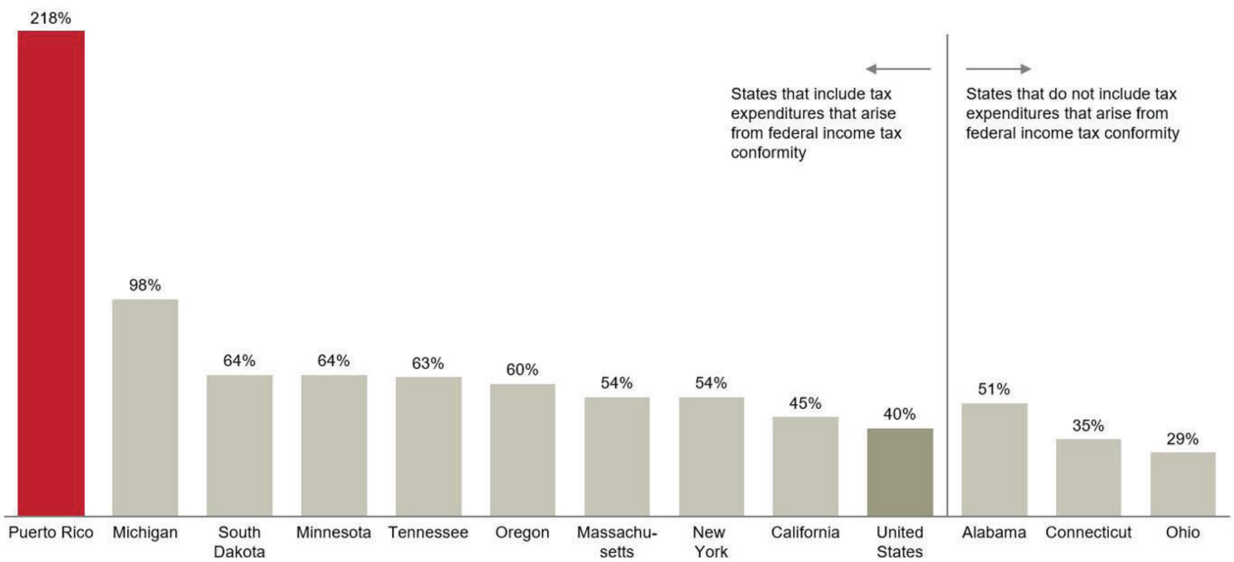
EXHIBIT 124: TOTAL ESTIMATED TAX EXPENDITURE AS SHARE OF GROSS STATE PRODUCT



Note: Gross States Product (GSP) data is gathered from the Bureau of Economic Analysis (BEA). Alabama, Connecticut and Ohio do not include tax expenditures that arise from federal income tax, further no state produces an entirely comprehensive set of tax expenditure estimates. As a result, some of the variance between states is due to differences in levels of this comprehensiveness. *Tax expenditure estimates for the US are for 2020 and reflect Tax Cuts and Jobs Act of 2017 changes in tax policy. US tax total is not reduced for the cost of the refundable portion of tax credits, including the Earned Income Tax Credit

SOURCE: Bureau of Economic Analysis (BEA)

EXHIBIT 125: TOTAL TAX EXPENDITURE AS A SHARE OF TOTAL TAXES



Note: Total tax expenditure includes tax expenditures associated with total individual income tax, corporate income tax, SUT, and excise tax as well as other taxes included in state tax expenditure reports (excluding property tax). Similarly, total taxes include all taxes other than property tax. Alabama, Connecticut and Ohio do not include tax expenditures which arise from federal income tax, further no state produces an entirely comprehensive set of tax expenditure estimates. As a result, some of the variance between states is due to differences in levels of this comprehensiveness.

For tax expenditures reporting to maintain its relevance and maximize its impact on the policy making process, regular reviews of each tax incentive must be completed to assess whether each incentive is meeting its policy objective (including an assessment of benefits along with costs).

All tax expenditures should undergo periodic technical reviews with a presumption each credit will be prohibited unless sufficient justification exists to maintain the incentive. The default position for all tax expenditures should be that the burden of proof of effectiveness lies with the tax expenditure. Absent a compelling justification, the tax expenditure should be eliminated. Simply because an incentive was offered in the past does not mean it meets the policy objectives in Puerto Rico's future.

Going forward, the estimates in the tax expenditures report must also be systematically incorporated into the annual fiscal plan and budget review process. This means the estimates need to be considered in conjunction with direct spending proposals at the executive review and legislative levels and as a component of the budget envelope for agencies responsible for related direct spending programs. As an example, to force a legislative discussion, other states automatically sunset certain tax expenditures, which expire unless the incentives are proactively renewed, or states will explicitly cap the level of incentives offered.

For that milestone to be achieved, the tax expenditure report must be produced annually on a timely and efficient basis. In fact, the publication of the first tax expenditures report, in September 2019, stated the second annual report would be published in March 2020. The Government, moreover, should already have published the 2018 and 2019 calendar years tax expenditure reports, in accordance with the timing stipulated in the 2020 Fiscal Plan. As of the certification of this 2021 Fiscal Plan, however, that milestone has not yet been met. The 2018 Tax Expenditures Report must now be published no later than May 31, 2021[325]. Additionally, going forward the Government must publish the annual report by December 31st of each calendar year.

Additional revisions must also be incorporated into future tax expenditure reporting. This includes a multi-year expenditure forecast, a policy rationale for each incentive, a year-end assessment of tax incentives granted to each intended target, and a trend analysis of tax revenue

325 On March 30, 2021 the Oversight Board issued a letter to the Secretary of Treasury providing detailed comments on the Commonwealth's tax expenditures.

Case:17-03283-LTS Doc#:18759-1 Filed:09/21/21 Entered:09/21/21 15:53:04 Desc: Exhibit Page 53 of 79

collections. More specifically, future Tax Expenditure Reports must include the cost of each tax expenditure for the current year and at least the prior two years. The Tax Expenditure Reports must also forecast the expected revenue collections and losses for at least the next five years from the date the report is produced. As future Tax Expenditure Reports become more normalized, the forecast can also start accounting for behavioral effects of each incentive and the macroeconomic or other dynamic effects in the cost estimates.

Future Tax Expenditure Reports must also broaden the universe of tax expenditures included in the reports. The inaugural report included deviations from major revenue sources, including individual income taxes, personal income taxes, sale and gross receipts taxes and excise taxes. However, non-corporate business income tax analysis, property taxes, and certain other taxes were not included; going forward, they should be included in this report. In addition, the exclusion of Act 154 taxes from the report may need to be reconsidered and or its legitimacy confirmed. Including an inventory of all tax credits, cash grants, deductions, exemptions, preferential tax rate, tax liability deferral and any other tax incentives where amounts allocated can materially impact the Commonwealth's financials will make the report more comprehensive.

Rationalizing the amount of tax expenditures offered by the Government is smart and prudent fiscal management. This can only be done in a comprehensive way through the production of the annual tax expenditure report on a timely basis.[326]

17.3.2 Tax incentives code reform

The current tax incentives code structure has high fiscal costs – in excess of $400 million – but does not provide enough visibility to allow for clear tracking of these tax concessions and the returns they generate for Puerto Rico's economic growth. Past studies, based on limited available economic data, have indicated that while some tax incentives led to positive returns on investment, many others do not yield similar results.

That is what led the Commonwealth to enact Act 60-2019 (the "Puerto Rico Tax Incentives Code" or "Incentives Code"), which amended the tax incentives code and adopted a new legal and administrative framework to normalize the way in which new incentives are created, approved, processed, and monitored. Not all laws established in Act 60-2019 were repealed and replaced, creating confusion as to whether the Treasury Department should follow guidelines imposed by these still-active statues or those imposed by the Incentives Code. To fully effectuate the goal of the Incentives Code, and to limit confusion, the Government should take action and repeal the remaining statutes, still in effect that were merged into the Incentives Code. To evaluate the fiscal benefit from each incentive, the Incentives Code uses a Return on Investment ("ROI") approach combined with an assessment of fiscal multipliers to prioritize high value-added incentives relative to those that do not generate sufficient economic return. The Incentives Code, however, does not include explicit caps on, reductions to, or the elimination of any specific incentives. Rather, the purpose of the Incentives Code is to measure the ROI of tax and economic incentives by grouping them under a transparent and uniform code.

Through the Incentives Code, the term, rate, and characteristics of incentives offered are harmonized across industries and credits. The Incentives Code also creates a centralized Incentives Office for Businesses in Puerto Rico at DDEC and establishes an Incentives Concession Portal to centralize, standardize, and streamline the processes related to the application and approval of decrees, cash grants, tax credits, subsidies, and other incentives.

Act 60-2019 also required the public disclosure of beneficiaries of certain tax expenditures. In accordance with that requirement, DDEC disclosed (on January 30, 2020) that 8,364 companies and individuals received certain tax incentives. The online database offers the name of the grantee, the type of benefit, and the decree's issue date. DDEC released the relevant information for recipients that receive benefits from the following Acts: Act 14-2017 (Physician Retention); Act

326 Ibid.

20-2012 (Exportation of Services); Act 22-2012 (Investor Relocation); Act 273-2012 (International Financial Center Regulatory Act); and Act 27-2011 (Film Production). DDEC subsequently released additional data on February 11, 2020, disclosing recipients of the following tax expenditures: Act 73-2008 (Economic Incentives for the Development of Puerto Rico Act); and Act 83-2010 (Puerto Rico Green Energy Incentives Act). During FY2021, DDEC had a milestone budgeting incentive to publish quarterly reports on the agency's website detailing all economic incentive donations and subsidies to private corporations from FY2017 to the present date. DDEC has accordingly published the quarterly reports on their website.

Many provisions of Act 60-2019, before they can be implemented, require the drafting and approval of regulations, including prior Oversight Board review and approval.[327] The promulgation of such regulations was included as part of the process during FY2021 and such regulations must continue to be drafted and approved during FY2022.

The lack of transparency and high cost of these tax concessions warrants further revisions to the Incentives Code such that tax incentives are structured in a way that is more likely to be beneficial to the Commonwealth. A multipronged approach is needed. This approach must include limiting the DDEC Secretary's discretion in awarding incentives, specifying in more detail the meaningful information to be submitted in the annual public reporting required by the statute, establishing a more robust audit process with meaningful penalties for firms that are found to be out of compliance or failing to provide the anticipated benefits, and establishing an ROI based standard of program evaluation that will meaningfully discriminate among projects so that incentives are concentrated on those projects most likely to provide net economic benefits to the commonwealth.

This can most easily be accomplished through the drafting and approval of Act 60-2019's regulations, including prior Oversight Board review and approval. Specifically, these regulations must, at minimum, include the following provisions:

- **Deconcentrated authority and distributed oversight.** At the moment, excess discretionary authority for determination of eligibility, terms and award of tax incentives and grants is concentrated with a single official of the Commonwealth Government, the DDEC Secretary. Act 60-2019 regulations combined with an Executive Order by the Governor should establish an Economic Incentives Review Board, with the DDEC Secretary as Chair, to advise and confirm incentive awards, the terms of these awards, the process and methods involved in the evaluation of award proposals, annual award limits, oversight and reporting requirements, and consultation with affected agencies and municipalities. In addition to the DDEC Secretary, this body should be composed of senior fiscal office holders within the Commonwealth Government who do not report to the DDEC Secretary, such as, for example, (i) Treasury Secretary, (ii) Puerto Rico Fiscal Agency and Financial Advisory Authority Executive Director, (iii) Director of Office of Management and Budget, and (iv) Chief Investment Officer.
- **Evaluation standards for tax incentive and grant award should be balanced.** Act 60-2019 established a positive ROI as the primary standard for determining incentive awards. The standard as currently operationalized, however, lacks balance. Benefits are defined more comprehensively and extensively than are costs, resulting in an ROI standard that does not assure net benefit actually accrues to the Commonwealth. The ROI standard operationalized by the implementing regulations should consider opportunity costs to the Commonwealth and any consideration of direct, indirect and induced benefits, and should also require consideration of direct, indirect and induced cost for the ROI standard to meaningfully reflect net outcomes for the Commonwealth.
- **Limited time duration and sunset and review.** Any decree or incentive granted under Act 60-2019 should be for a specifically identified and limited amount of time. Typically, this should be no more than 5 years based on facts and circumstances, and extraordinary processes

[327] Pursuant to PROMESA section 204(b)(4) and the Oversight Board's policy with respect thereto, proposed rules, regulations, administrative orders and executive orders covered by said policy, including all regulations under Act 60-2019, must be submitted to the Oversight Board before being issued to ensure compliance with the certified 2021 Commonwealth Fiscal Plan

of review and approval should be required of any decree granted for a period in excess of 5 years. All decrees should specify and expiration date. No decrees should be extended without reapplication. Annual reports to the Legislature should include an evaluation of the efficacy of incentive programs and each program should undergo extensive review every 3 years which includes a recommendation on its continuation or termination and the detailed basis for that recommendation.

- **Budgeting incentives.** Cash grants require annual appropriation. All incentives, however, should be limited. Annual limits should be placed on the aggregate scale of incentives that can be offered each year. The estimated revenue loss calculated in the ROI should form the basis of determining annual revenue costs and the aggregate of these costs should be limited annually. Additional awards should be deferred to the following year once annual limits are reached. The accuracy of estimated revenue losses should be confirmed in subsequent program reports.

- **Revenue neutrality.** Firm limits should be established to limit the set of potentially eligible projects to ensure, with confidence, these projects satisfy development objectives and remain revenue neutral and consistent with the certified 2021 Fiscal Plan. Within the ROI methodology, the fiscal analysis of projects should assure at minimum they are revenue neutral.

- **Consultation with affected agencies and municipalities.** All affected agencies and jurisdictions should be consulted regarding the offering of tax incentives and the Commonwealth Government should not be permitted to commit the tax resources of a municipality toward a tax incentive without that municipality's active concurrence. Procedures should be established to minimize the risk that municipalities' tax resources are committed toward a tax incentive without a mutual agreement in place ensuring that the incentive is in both governments' best interests.

- **Public reporting of incentive recipient performance and audit.** Regular reporting of incentive effectiveness is required through publication of an Annual Incentive Effectiveness Report. The Act 60-2019 regulations should also provide meaningful guidance on how required project performance measures will be obtained or calculated. The annual report should include detail sufficient to maintain transparency and accountability. Similar to the DDEC transparency portal, it should publicly disclose recipients, type and level of performance on incentives and expected public benefits. To assure that recipients comply with the terms of incentive decrees, audits should be periodically performed in the form of detailed desk reviews of compliance reports and on-site audits of books and facilities. Audit selection and review should be based on the decision of an audit committee, rather than at the discretion of a single official. An important feature to consider including are random audits incorporating a full onsite review of performance targets related to, for example, facilities, employment documentation, charitable contributions, investment, local purchases, and exports.

17.3.3 Principle of revenue neutrality

Puerto Rico needs to drive toward more formality and increased compliance within the tax base, but it cannot lose revenues in the process. Therefore, any tax reform or tax law initiative that the Government undertakes or pursues during a year within the 2021 Fiscal Plan period must be revenue neutral, that is, all tax reductions must be accompanied by specific, offsetting revenue measures of the same amount that are identified in the enabling legislation. Each tax measure must also include confidence building elements, such as behavioral adjustments and reasonable capture rates. To ensure revenue neutrality, the implementation of any tax law initiative must occur sequentially, with the Government ensuring that initiatives are paid for before rates are reduced. Enforcement mechanisms that yield additional revenues must be part of any tax initiative package that results in a tax revenue decrease to prevent a scenario where tax reductions

are not accompanied by sufficient offsetting revenue measures identified in the enabling legislation.

17.3.4 Required implementation actions

To achieve the 2021 Fiscal Plan revenue measures, certain action items must be implemented according to the schedule described in *Exhibit 126*:

EXHIBIT 126: REVENUE MEASURES REQUIRED IMPLEMENTATION ACTIONS

Required implementation action	Deadline
▪ Implement process to estimate the impact of compliance efforts on revenue collections to inform future program priorities	▪ June 2021
▪ Publish an annual Tax Expenditures Report that identifies and quantifies all tax expenditures (including tax exclusions, exemptions, adjustments, deductions, subtractions, credits, abatements, deferrals, rebates, and special rules).	▪ December 2021
▪ Implement process to ascertain proper classification of all excise tax revenues collected through SURI	▪ December 2021
▪ Conduct an analysis on the estimated number and value of online rentals to compare with the total collections from Online Rental Platforms Tax.	▪ December 2021

Chapter 18. Reduction in appropriations to UPR

18.1 Current state and vision

The central Government provides a range of appropriations, including to the University of Puerto Rico (UPR), Puerto Rico's 78 municipalities, the Highways and Transportation Authority (HTA), and "other" recipients (typically private industry or non-profit institutions).

The UPR, founded in 1903, is Puerto Rico's largest and main university system. Its mission is to serve the people of Puerto Rico, contribute to the development and enjoyment of the fundamental values of Puerto Rican culture, and uphold the ideals of a democratic society. To advance its mission, UPR strives to provide high-quality education and create new knowledge in the Arts, Sciences, and Technology. UPR has a history of academic excellence, with 694 degree-granting academic and professional certification programs, including six first-level professional degree programs and 34 PhD programs. The university system is also an important center of research; for example, the Río Piedras campus is classified as a high research activity university by the Carnegie Foundation (one of only 335 U.S. universities to receive such a designation) and there are 79 separate research centers across the university system. UPR plays a critical role in providing avenues for social and economic advancement, with 68% of students receiving Pell grants.[328]

In FY2018, UPR was 67% subsidized (~$678 million in annual appropriations) by state and local funds, compared to an average 25% state and local subsidization for U.S. public universities.[329] In FY2018, UPR's undergraduate tuition was less than one-third of the U.S. average for public universities, even after adjusting for per-capita income, and more than 40% below the average

328 UPR 2012-2017 Strategic Plan
329 UPR, IPEDs 2016, College Board

required to establish a memorandum of understanding with AEP on specific maintenance costs which can be covered.

For road maintenance, the 2020 Fiscal Plan made available $10 million for FY2021, which has been extended to FY2022. Within this incentive fund, municipalities can be reimbursed for maintenance costs associated with their secondary and tertiary roads through coordination with the Department of Transportation and Public Works (DTOP for its Spanish acronym). 78 municipalities with 6,553 kilometers of roads are eligible to participate. This represents $1,526 available funds per kilometer. Municipalities are required to establish a memorandum of understanding with DTOP on specific maintenance costs which can be covered and may include primary roads.

19.3.3 Property tax reform

CRIM plays an important role in supporting Puerto Rico's municipalities in their economic and social development by ensuring an efficient process for collecting and distributing real and personal property taxes, which are important revenue sources for municipalities. For FY2021, property taxes represent approximately 30% of the aggregate general fund budget for municipalities.

Historically, the taxable value of real and personal property has been significantly reduced by tax exemptions and exonerations, which have a negative impact on the municipalities that rely on property taxes to fund essential services. Puerto Rico offers considerably more tax breaks both in terms of number and notional value compared to other U.S. jurisdictions. For example, in FY2020, more than 50% of the real and personal property tax base was eliminated through these exemptions and exonerations. In addition, CRIM's tax roll does not include all the properties in Puerto Rico, nor does it accurately reflect the taxable value of some properties as significant home improvements have not been properly appraised. Similarly, due to outdated systems, there are high levels of delinquencies with collection rates for current year real property tax billings well below comparable jurisdictions, standing at approximately 68%. This has resulted in a large accounts receivable balance. Therefore, it is essential that CRIM seize all opportunities to maximize property tax collections by improving compliance to help municipalities reduce the reliance on the Commonwealth transfer and achieve long-term fiscal sustainability.

CRIM is continually undergoing an operational transformation centered around replacing outdated and inefficient applications and hardware, implementing best practices for business continuity, re-engineering processes to improve services to municipalities and taxpayers, and establishing a more data-driven culture. These initiatives should serve as the foundation for CRIM to implement strategies for successfully enhancing tax revenue collections. In addition, CRIM is undertaking various measures to improve collaboration with other government agencies and update the tax rolls to accurately reflect property taxable value and ownership. These measures will allow CRIM to better capture unrealized property tax revenues by increasing tax compliance and improving overall collection rates. Based on implementation planning discussions with CRIM management, CRIM estimates these initiatives could produce:

- $69 million of additional annual revenue from raising real property tax compliance from 68% to 76%
- $166 million of additional annual revenue from registering properties and home improvements not on the tax roll
- $89 million of additional annual revenue from fixing incorrect mailing addresses in the billing system
- $400 million of one-time revenue from selling the accounts receivable portfolio
- Additional revenue-enhancing measures are identified in CRIM's 2021 Fiscal Plan

EXHIBIT 150: LIST OF ENTITIES EXCLUDED FROM THE 2021 FISCAL PLAN

Entities issuing standalone Fiscal Plan	Entities excluded from Fiscal Plan
Development Bank for PR	Agency Fund (Special Deposit Fund)
Aqueduct and Sewer Authority	Commonwealth of Puerto Rico Regional Center Corporation
Municipal Revenues Collection Center (CRIM)	Public Finance Corporation (PFC)
PR Electric Power Authority	Puerto Rico Government Investment Trust Fund
PR Highways and Transportation Authority[1]	Puerto Rico Municipal Finance Agency
Puerto Rico Industrial Development Company	Puerto Rico Water Pollution Control Revolving Fund
University of Puerto Rico[2]	Puerto Rico Industrial Development Company
Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives	Safe Drinking Water Treatment Revolving Loan Fund
	The Children's Trust Fund
	Tourism Development Fund

1 Commonwealth Fiscal Plan includes HTA general fund appropriations
2 Commonwealth Fiscal Plan includes UPR general fund appropriations

Chapter 23. Macroeconomic projections

23.1 Economic and demographic trends

EXHIBIT 151: MACROECONOMIC TRENDS

Macroeconomic trajectory: Total GNP, $B Fiscal Years ending June 30th

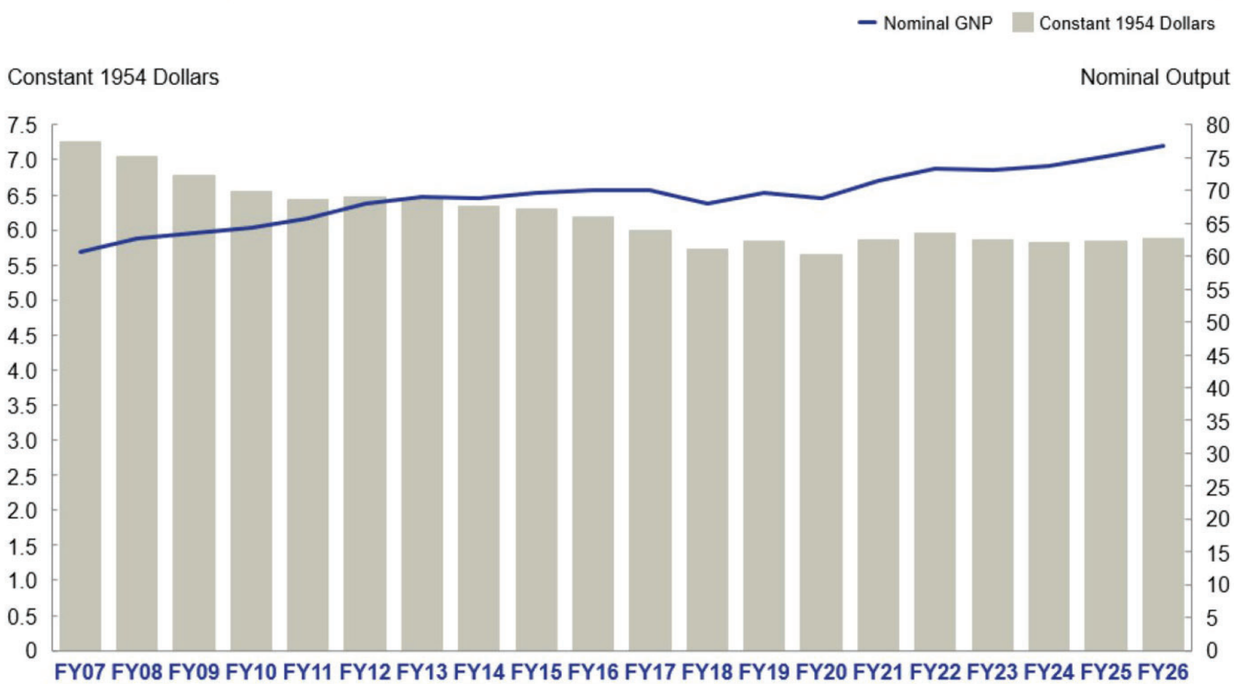


EXHIBIT 152: POPULATION TREND

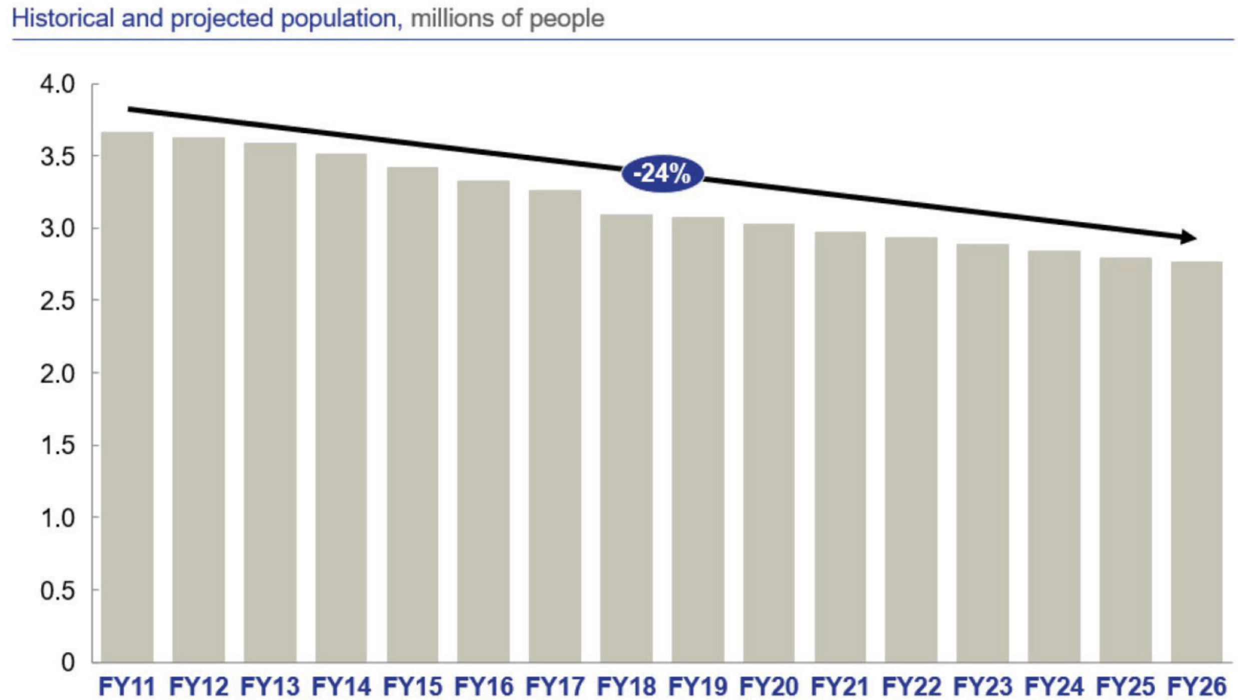
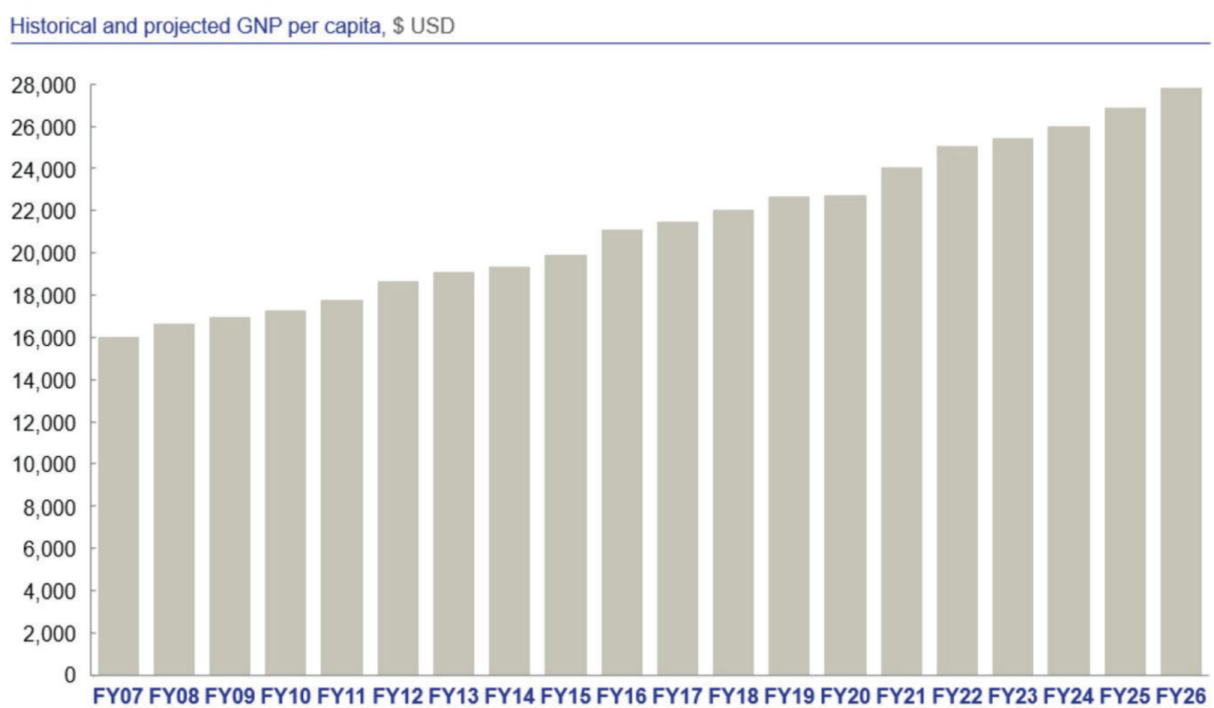


EXHIBIT 153: PER CAPITA GNP TREND



Chapter 24. Financial projections

24.1 Detailed financial projections

EXHIBIT 154: FINANCIAL PROJECTIONS POST-MEASURES AND STRUCTURAL REFORMS

Financial projections post-measures and structural reforms, units as labeled

Line item	FY22	FY23	FY24	FY25	FY26
Population, #	2,928	2,883	2,839	2,798	2,764
Population growth rate, %	-1.6%	-1.6%	-1.5%	-1.5%	-1.2%
Real growth rate[4], %	**1.5%**	**-1.5%**	**-0.7%**	**0.4%**	**0.7%**
Nominal GNP, $M	**73,333**	**73,156**	**73,679**	**75,106**	**76,759**
Nominal GNP per capita, $	25,042	25,376	25,952	26,846	27,770
Nominal GNP per capita growth, %	4.3%	1.3%	2.3%	3.4%	3.4%
Inflation, %	**1.1%**	**1.3%**	**1.4%**	**1.5%**	**1.5%**
Disaster funding, $M	3,950	5,318	4,681	5,879	5,883
Revenues[1], $M	**21,487**	**20,447**	**20,238**	**20,586**	**20,914**
Commonwealth revenues	15,773	15,504	15,229	15,506	15,757
Federal transfers	5,714	4,943	5,009	5,080	5,158
Expenditures[1], $M	**(19,771)**	**(19,127)**	**(19,167)**	**(19,321)**	**(19,581)**
Commonwealth-funded expenditures	(14,065)	(14,193)	(14,167)	(14,250)	(14,431)
Federally funded expenditures	(5,706)	(4,935)	(5,000)	(5,072)	(5,150)
Gap/surplus, $M	**1,716**	**1,320**	**1,071**	**1,265**	**1,334**
Contractual debt service payments[2], $M	(1,749)	(1,764)	(1,674)	(1,679)	(1,668)
Net gap / surplus, $M	**(33)**	**(444)**	**(603)**	**(414)**	**(334)**
Surplus potentially not available[3], $M	*141*	*142*	*138*	*143*	*152*

1 Revenues and expenditures excluding gross up adjustments; revenues do not include Earned Income Tax Credit
2 Debt service based on prepetition contractual debt obligations. Presented for illustrative purposes only & does not represent anticipated future payments on restructured debt. Includes GO, PBA, CCDA, PRIFA, PFC, ERS. The 2021 Fiscal Plan does not assume any predetermined outcome of ongoing litigation with respect to GO bonds
3 These surplus amounts are generated by Commonwealth corporations and the Commonwealth's ability to access such surplus amounts could be at risk without further legislative action
4 Adjusted for income effects

EXHIBIT 155: REVENUE BREAKDOWN POST-MEASURES (INCLUDING EITC)

Revenue detail post-measures, Earned Income Tax Credit and structural reforms

Fiscal Year Ending June 30, $M	FY22	FY23	FY24	FY25	FY26	FY22-26
General Fund Revenues:						
Individual Income Tax[1]	2,105	2,115	2,116	2,173	2,219	10,728
Corporate Income Tax	2,054	2,017	1,997	2,069	2,110	10,247
Sales and Use Tax	2,239	2,219	2,214	2,253	2,292	11,218
Act 154	1,631	1,447	1,199	1,199	1,199	6,676
Non-Resident Withholdings	349	349	350	354	358	1,759
Alcoholic Beverages	264	263	263	263	263	1,315
Cigarettes	95	94	94	94	95	472
Motor Vehicles	538	450	391	399	407	2,185
Excises on Off-Shore Shipment Rum	209	200	201	202	202	1,014
Partnerships	103	103	103	105	108	521
Other excise taxes	235	234	236	240	246	1,191
Other General Fund Revenue	387	386	389	396	405	1,962
Sub-total before other Tax Revenues	**10,207**	**9,877**	**9,554**	**9,747**	**9,904**	**49,289**
Total GF portion of misc. tax streams	552	569	571	578	584	2,854
Total Conditionally Allocable Revenues (including CRIM)	822	832	832	836	841	4,163
Total General Fund Revenues	**11,582**	**11,278**	**10,957**	**11,160**	**11,330**	**56,306**
Special Revenue Fund						
SRF revenues - CW Agencies	1,154	1,156	1,162	1,180	1,202	5,853
SRF revenues - IFCUs	1,633	1,646	1,663	1,695	1,731	8,367
Enterprise Fund Revenues	1,204	1,220	1,238	1,256	1,275	6,194
Total SRF Revenues	**3,991**	**4,022**	**4,063**	**4,131**	**4,208**	**20,415**
Federal Fund Revenues:						
Central Government	1,124	1,138	1,153	1,170	1,188	5,773
IFCUs	161	163	165	167	170	826
Social Programs	3,148	3,175	3,207	3,242	3,281	16,052
Federal Fund Revenues (excluding Medicaid receipts)	**4,432**	**4,476**	**4,525**	**4,579**	**4,639**	**22,651**
Federal Transfers - Medicaid	1,282	468	484	501	519	3,254
Total Federal Fund Revenues	**5,714**	**4,943**	**5,009**	**5,080**	**5,158**	**25,904**
Revenue post measures	**21,287**	**20,243**	**20,029**	**20,372**	**20,695**	**102,625**
Adjustments for revenue gross up	718	702	703	704	708	3,534
Revenue post measures and gross ups	**22,004**	**20,944**	**20,732**	**21,076**	**21,403**	**106,159**

1 Includes Earned Income Tax Credit

EXHIBIT 156: SUMMARY OF BASELINE EXPENDITURES AND MEASURES

Expense detail post-measures and structural reforms

Fiscal Year Ending June 30, $M	FY22	FY23	FY24	FY25	FY26	FY22-26
Expenses						
General Fund Expenditures:						
Direct Payroll	(3,134)	(3,179)	(3,228)	(3,279)	(3,330)	(16,152)
Non-Personnel Operating Expense (excl. Capex)	(1,964)	(1,893)	(1,933)	(1,965)	(1,990)	(9,745)
Municipal, HTA and UPR appropriations	(1,193)	(1,179)	(1,125)	(1,142)	(1,128)	(5,766)
Pension Expenses	(2,307)	(2,285)	(2,281)	(2,272)	(2,263)	(11,409)
Disaster Recovery Cost Match	-	-	-	(40)	(61)	(101)
Restructuring / Title III Costs	(275)	(168)	(130)	(49)	-	(622)
Other GF Expenses	(535)	(498)	(500)	(507)	(491)	(2,530)
Total GF Expenses (excl. inter gov transfers)	**(9,408)**	**(9,203)**	**(9,197)**	**(9,254)**	**(9,263)**	**(46,325)**
Medicaid - commonwealth funded	(1,554)	(2,226)	(2,317)	(2,409)	(2,517)	(11,022)
Social Programs - commonwealth funded	(15)	(15)	(15)	(15)	(15)	(76)
Total GF Expenses (excl. inter gov transfers and incl. Medicaid and social programs)	**(10,977)**	**(11,444)**	**(11,529)**	**(11,678)**	**(11,795)**	**(57,423)**
Special Revenue Fund Expenditures:						
CW Agencies Direct Payroll	(696)	(707)	(716)	(728)	(740)	(3,588)
CW agencies Non-Personnel Operating Expenses (excl. Capex)	(1,534)	(1,542)	(1,556)	(1,582)	(1,612)	(7,825)
Medicaid - Special Revenue Fund	(414)	(427)	(437)	(447)	(458)	(2,183)
Federal Fund Expenditures:						
CW Agencies Direct Payroll	(739)	(743)	(748)	(753)	(761)	(3,744)
CW agencies Non-Personnel Operating Expenses (excl. Capex)	(938)	(950)	(962)	(976)	(991)	(4,817)
Medicaid - federally funded	(1,282)	(468)	(484)	(501)	(519)	(3,254)
Social Programs - federally funded	(2,747)	(2,775)	(2,806)	(2,841)	(2,879)	(14,047)
Total CW Funded Op. Exp.[1]	**(18,949)**	**(18,712)**	**(18,894)**	**(19,154)**	**(19,397)**	**(95,106)**
Expense Measures	1,051	1,443	1,608	1,745	1,758	7,605
Adjustments for expenditure gross up	(718)	(702)	(703)	(704)	(708)	(3,534)
Total CW Funded Op. Exp. Post Measures excl. Loss of Medicaid Funding	**(18,616)**	**(17,971)**	**(17,988)**	**(18,113)**	**(18,347)**	**(91,035)**
Net Operating Surplus/(Deficit)	**3,589**	**3,178**	**2,952**	**3,177**	**3,276**	**16,171**
Capex and Other Expenses:						
Maintenance Capex	(291)	(295)	(300)	(304)	(309)	(1,500)
Enterprise funds	(1,204)	(1,219)	(1,237)	(1,256)	(1,275)	(6,191)
Others[2]	(378)	(343)	(345)	(351)	(357)	(1,775)
Other Non-Recurring	-	-	-	-	-	-
Total Capex and Other Expenses	**(1,873)**	**(1,858)**	**(1,882)**	**(1,912)**	**(1,942)**	**(9,466)**
Surplus Post Measures (excl. Debt Payments)[3]	**1,716**	**1,320**	**1,071**	**1,265**	**1,334**	**6,706**
Pre Petition Contractual Debt Service (excl. COFINA)[4]	(1,749)	(1,764)	(1,674)	(1,679)	(1,668)	(8,533)
Surplus after Measures and Debt Payments	**(33)**	**(444)**	**(603)**	**(414)**	**(334)**	**(1,827)**
Surplus potentially not available, $M[5]	141	142	138	143	152	716

1 Excludes Enterprise Funds, Capex, Other non-recurring, Cigarettes, Disbursements to public corporations, Payment of State Revolving Funds / Other Federal Funds Deposits at GDB
2 Cigarettes, Disbursements to public corporations, Payment of State Revolving Funds / Other Federal Funds Deposits at GDB
3 Includes capex and other expenses
4 Debt service based on prepetition contractual debt obligations. Presented for illustrative purposes only and does not represent anticipated future payments on restructured debt.
5 These surplus amounts are generated by Commonwealth corporations and the Commonwealth's ability to access such surplus amounts could be at risk without further legislative action.